



U.S. Department of State FY 2000 Country Commercial Guide: Ukraine

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Note: This information has been compiled as a source of information for American business representatives working in Ukraine. A company listing should not in any way be perceived as an official endorsement of a company or its services. Individuals requiring business services in Ukraine are urged to shop around before selecting the company best suited to meet their individual needs.

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Chapter I: Executive Summary

This Country Commercial Guide (CCG) presents a comprehensive look at Ukraine's commercial climate. Country Commercial Guides were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies. This Country Commercial Guide contains information as of the end of July 1999.

Ukraine, a country which is now on the eve of its eighth anniversary of independence (August) and its third presidential election (October), generally has followed a course of democratic development, social stability, and determined, but slow-moving economic reform. A tremendous amount of work still lies ahead -- particularly in the area of economic development and the creation of an economic environment conducive to implementation of true market forces. Progress continues to be relatively slow - whether the movement will be in a forward direction is largely dependent on the outcome and aftermath of the presidential elections.

The country, a land of over 50 million people with substantial human, technical, and natural resources, is an important emerging market at the crossroads of Central Europe, Russia, Central Asia, and the Middle East and holds great potential for becoming an important new market for U.S. trade and investment. A significant number of both large multinationals and smaller foreign investors are present in this challenging market. Ukraine's ultimate trade and investment potential will depend largely on the success of its attempts to accelerate the movement toward a market economy and develops a more conducive business environment.

Although Ukraine is taking steps in adapting its trade regime to conform to the World Trade Organization's (WTO) accession requirements, which will have a positive effect for U.S. investors and exporters, progress is slow and it is difficult to assess when ultimate accession will occur.

The most pressing economic problems currently facing Ukraine are of a structural nature: slow privatization; little industrial restructuring; an unwieldy governmental apparatus; a narrow tax base; over-regulation; significant levels of corruption; and a largely unreformed agricultural sector. These factors have caused over half of the economy to operate in the informal, or "shadow," sector.

While foreign assistance is crucial in this period of economic transition, official flows of assistance in the longer term should be dwarfed by private capital flows if Ukraine creates a more conducive environment for private sector development. Ukraine requires technology, management expertise and access to international markets that only private business can provide. Projected flows of tens of billions of dollars over the next several decades are not unrealistic.

According to official Ukrainian statistics, total foreign investments in Ukraine were valued at \$2.8 billion through May 1999. The United States accounts for approximately 19% (\$523.7 million) of the total and the Netherlands is a distant second at approximately 10% (\$272.6 million). In spite of being number one, U.S. investment in Ukraine is very low compared to the American presence in other reforming economies in this region. Poland and Hungary, for example, have attracted roughly \$5.5 billion and \$4 billion respectively in U.S. direct investment. On a per capita basis, foreign direct investment in Ukraine is among the lowest in the region.

U.S. exports to Ukraine are also just beginning to take off. The \$220 million total of 1995 increased to \$394 million in 1996, on the strength of growing exports of agricultural equipment and high-tech informatics equipment. The 1997 and 1998 figures were still hovering around the \$400 million level.

Over 250 U.S. companies are currently active in the Ukrainian market, either as investors, exporters, importers, or members of the legal or consulting sectors. A number of others are poised to enter the arena, while some already-entrenched American players are getting ready to expand their activities, but are waiting for evidence of further improvements in business conditions. Others are pressing ahead and, in fact, contributing to improving these conditions.

As can be seen from the line-up of firms active in the market now and research done by the Commercial Service of the U.S. Embassy, the most promising sectors for U.S. investment in Ukraine include: the food industry, energy, building materials, consumer goods, informatics, health care, transportation, environmental technologies, and tourism services.

U.S. business could play a major role in providing capital investment and the know-how required to modernize and restructure Ukraine's economy, particularly in the above sectors. There is great potential in Ukraine, but U.S. businesses desiring to do business in the country must be prepared to deal with a very challenging environment. To maximize Ukraine's potential, the government of Ukraine will need to press ahead in its efforts to privatize its economy; develop a business climate that is conducive to the rapid expansion of U.S. trade and investment (including extensive deregulation); limit tariff and non-tariff barriers to U.S. trade and investment; ensure fair access to the Ukrainian market for U.S. firms; increase awareness of U.S. business, products, and technology in Ukraine; and increase the U.S. business community's awareness of the market in Ukraine, as well as its needs and existing trade and investment opportunities.

The Commercial Service of the U.S. Embassy in Kyiv stands ready to assist American companies in each step of the way to successful exporting to and investing in Ukraine. Our offices provide a variety of services that range from assessing the market through our research services and consultations to providing advocacy support for finalizing investment or sales projects. We also offer facilities and business infrastructure support; bring Ukrainian businesspersons to the major trade exhibits in the United States through the International Buyer Program (IBP); develop structured one-on-one meetings through our Gold Key Service (GKS); conduct "Regional Outreach" programs throughout the oblasts of Ukraine; provide training opportunities in the United States to Ukrainian business managers through our Special American

Business Internship Training (SABIT) program; and pursue contacts through our Business Information Service for the Newly Independent States (BISNIS) "Search for Partners" program.

The Commercial Service in Kyiv has the on-site coordinating function of the Committee on Trade and Investment (CTI) of the U.S.-Ukraine Binational (Gore-Kuchma) Commission. CS Kyiv also participates in the trade and investment promotional programs of the U.S. Department of Commerce's "Showcase Europe" program.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA, (1-800-782-8872) for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>; <http://www.state.gov>; and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS (1-800-553-6847). U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at: 1-800-USA-TRADE (1-800-872-8723) or by fax at: (202) 482-4413.

Chapter II: Economic Trends and Outlook

A. Major Trends and Outlook

Ukraine was deeply integrated into the former Soviet economy, particularly in the agricultural and defense industries. Ukraine's future economic development will be directly tied to its efforts to build its own industries and to forge ahead with economic reform - areas where the country has historically had little experience.

Upon achieving independence, many analysts agreed that Ukraine had the best medium-term prospects for development of any of the former Soviet republics, including Russia. Ukraine's vast agricultural resources, port and shipbuilding facilities, machinery sector, transportation network, and skilled workforce created a favorable investment picture. Ukrainian authorities, however, were unwilling to undertake serious economic reform. In 1993, for example, annual inflation ran 10,000%, privatization was at a standstill, real wages plummeted, and economic output continued its steep decline.

After assuming office in July 1994, the Kuchma government announced the pursuit of a more serious program of economic reform, though pursuit of reforms has been uneven. Reforms led to a Systematic Transformation Facility (STF) with the International Monetary Fund (IMF) in 1994, to IMF Standby Agreements which functioned during parts of 1995-1997 and early 1998, and to a three-year IMF Extended Fund Facility (EFF) in September 1998. Ukraine has also received disbursements under major World Bank sectoral loans in areas such as financial sector development, privatization, agriculture, and energy.

The country's persistent decline in industrial output since independence has slowed in recent years. After a decline of 10% in 1996 (heavily influenced by a poor agricultural harvest), GDP began to grow in mid-1997 and fell only 3.2% for the year. It increased during the first half of 1998, but the August

Russian financial crisis had a strong impact in Ukraine and led to a renewed fall in economic activity. GDP fell 1.7% in 1998 and is projected to suffer another small drop in 1999. However, GDP and industrial production figures do not include the output of goods and services from the vast informal "shadow economy," which by some estimates accounts for as much as half of actual GDP.

The greatest economic achievement of the Kuchma government has been to bring inflation down progressively from the hyperinflation of 1993 to 10% in 1997. Inflation was even lower during the first half of 1998, but prices rose sharply in late 1998 after the steep drop in the Russian ruble led to a significant (though more modest) depreciation of the Ukrainian hryvnia. Total inflation for 1998 was 20%; a similar figure is projected for 1999. In early August 1999 the exchange rate was about 4.5 hryvnia per U.S. dollar.

B. Principal Growth Sectors

Literally all sectors, considered good for investment now or in the future, face the same business environment that is complicated by overregulation, burdensome tax structures, unevenness in application of laws, and a wanting concept of sanctity of law. Microeconomic growth will remain tied to overall structural changes such as tax reform, deregulation, privatization, budget austerity, and greater openness to trade. Nevertheless, even a slowly improving economic situation can serve to strengthen Ukrainian purchasing power, and Ukrainians will eagerly consume depending on their amounts of disposable income. Imported durable consumer goods such as shoes, clothing, and electrical household goods will likely witness continued demand in the future, although their market share has been threatened by the higher relative cost of imported goods following the late-1998 depreciation of the hryvnia. Demand continues as well for imported non-durable goods like foodstuff, candies, and other grocery items.

Agribusiness and food processing and packaging sectors have potential to become areas of significant growth. Previously concluded transactions that resulted in the export of over \$300 million of combines to Ukraine by John Deere and Case Corporation are excellent examples of the potential for rapid growth in the agricultural sector. However, this potential growth is very much dependent on the government's commitment to a real privatization policy in agriculture and rapid implementation of that policy. Agricultural reform has stalled in recent years, and many producers remain heavily indebted to the government for past deliveries of agricultural inputs.

The energy sector can also provide a high level of potential investment. Opportunities in the electrical power area can be significant if and when restructuring and privatization take hold. The passage of Production Sharing Agreement (PSA) legislation in July 1999 has improved prospects for significant foreign investment in oil, gas, and coal production.

In the high-tech area, telecommunications, computers, and computer software are other important growth sectors. As Ukraine attempts to merge onto the international information "superhighway," Ukrainian enterprises will require complete solutions to their information processing needs.

A mini-construction boom of "dachas" and apartment renovations, characteristic of an emerging economy, will create demand for quality building products,

hand-held construction equipment, finishing materials, etc. U.S. companies can position themselves for this potential surge in demand by identifying qualified distributors in Ukraine or establishing an on-the-ground market presence.

C. Government Role in the Economy

Current public spending levels are high by international standards for countries of Ukraine's level of development. The budget currently finances the provision of numerous goods and services that could be financed by the private sector, including explicit and implicit agricultural subsidies, support for government-controlled industrial enterprises, housing and communal services, and transport and telecommunications subsidies. Public spending is estimated at 22% of GDP in 1999. Under the terms of its IMF EFF program, Ukraine has had success in reducing the budget deficit and imposing more effective control on government expenditures, but arrears in salary and pension payments remains a serious problem.

Privatization in Ukraine has proceeded unevenly thus far, with relatively rapid results in small-scale privatization and a slower pace for large-scale privatization. While the reasons for delays are complex, factors include: an underdeveloped legislative base without clear, easily-understood procedures for selling state property; the absence of political will to overcome strong resistance from local authorities and enterprise directors; parliamentary resistance and a lack of clear incentives in the complicated privatization scheme. Privatization, for Ukrainian citizens as well as foreign investors, will remain a key variable that will shape Ukraine's success or failure in implementing market reforms.

Significant progress was made in 1995-96 in building a nationwide infrastructure for the larger privatization effort. A USAID-financed effort, along with the State Property Fund of Ukraine and accounting/consulting firm Price Waterhouse, established privatization auction centers in every oblast and a national auction center in Kyiv. The distribution of privatization certificates to all of Ukraine's citizens continued, with some 85% of Ukrainians having claimed their certificates as of year-end 1996.

During 1997, privatization picked up from the previous year. Initially, privatization in Ukraine was given a big boost by a solid pro-privatization speech by President Kuchma in January 1996 and a series of measures to remove roadblocks and accelerate the rate of privatization. The State Property Fund (SPF), Ukraine's landlord of all state-owned assets, announced that Ukraine privatized approximately 9,000 medium- and large-scale enterprises into joint stock companies during 1997. Overall, in the three years since the beginning of Ukraine's mass privatization program in January 1995, a total of 45,000 small businesses were privatized and 7,850 larger enterprises sold at least 70% of their shares.

In most cases government divestiture was based on buy-outs, preferential sales, and the free transfer of shares to managers and workers' collectives of the given enterprise. Foreign participation in the privatization process has been limited. Foreigners may not participate directly in the mass privatization program, although they may purchase shares of enterprises following their privatization. Some medium-scale enterprises are sold at auction or through

tender, and there have been one or two notable sales to foreign investors. The government designated some 250 large-scale enterprises that were to be sold directly to strategic investors, including foreigners, starting in 1997, though this process has moved slowly. Potential candidates for privatization are particularly attractive in the energy and telecommunications sectors, but actual energy privatization has been disappointing while parliamentary opposition has blocked major telecommunications privatization.

D. Balance of Payments Situation

Ukraine's foreign reserves tended to recover in the mid-1990s. However, persistent budget deficits and difficulties in obtaining foreign financing led to a decline in foreign exchange reserves during 1998. Reserves have recovered somewhat in 1999 thanks to disbursements by the IMF and World Bank and purchases of foreign exchange by the central bank (the National Bank of Ukraine). The maintenance of reserve levels may become difficult again in 2000, because the country will face around \$3.2 billion in external debt service obligations.

E. Infrastructure

A large part of Ukraine's national infrastructure dates back to the post-World War II period. Economic decline, investment cutbacks, and insufficient rates for services have led to the deterioration of this infrastructure. The tenuous state of Ukraine's telecommunications, energy systems, transportation, and road/highway infrastructure will require upwards of \$40 billion in investment over several decades. As part of international efforts to assist Ukraine in its transformation to a market economy, the World Bank, the European Bank for Reconstruction and Development, and other institutions have several infrastructure projects underway. Special emphasis will be given to energy conversion, projects that promote private sector initiative in infrastructure development and improvement, and projects that promote improved nuclear safety.

Chapter III: Political Environment

A. Nature of Bilateral Relationship with the U.S.

The United States strongly supports Ukraine's independence, sovereignty, and territorial integrity and is providing substantial technical assistance to help Ukraine make the changes necessary to solidify a democratic society based on rule-of-law, reform its economy, and integrate with the world economic system. A stable, independent, democratic, and market-oriented Ukraine is in the U.S. national interest; such a Ukraine will be a key partner in dealing with post-Cold War problems, like proliferation, and in shaping a more stable and secure Europe.

Starting in late 1993, the United States and Ukraine began to develop closer economic and commercial ties. The United States pursued a broad engagement of Ukraine across all fields and at all levels. The U.S. economic assistance program for Ukraine, administered by the U.S. Agency for International Development (USAID), in 1995 became one of the largest American aid programs in the world. Funds granted through the Nunn-Lugar Cooperative Threat

Reduction Program, targeted to assist the elimination of nuclear weapon systems and infrastructure in Ukraine, are also supporting efforts to build an export control system and protect against proliferation. In 1998, the United States pledged some \$325 million to support Ukraine's efforts with economic transformation and nuclear disarmament.

At the center of the United States' strategic partnership with Ukraine today is the U.S.-Ukraine Binational (Gore-Kuchma) Commission. Established in 1996, the main purpose of this Commission is to provide a mechanism for regular review and deepening of bilateral political, economic, commercial, and military cooperation. The annual meetings of the full Gore-Kuchma Commission are focused on four main areas: trade and investment, economic reform, foreign policy issues, and security issues. Various components of the Commission meet and consult on a regular basis to monitor implementation of select programs. Both sides have paid special attention to improving the foreign investment climate in Ukraine and used the forum as a vehicle for addressing specific business disputes and removing obstacles to the development of new business ventures.

B. Major Political Issues Affecting the Business Climate

The course of political reform was reinforced with the Ukrainian Parliament's June 28, 1996 passage of a new Constitution. The new Constitution recognizes the right to private ownership of land and property. It also strengthens provisions on the rule-of-law and provides for a more independent judiciary, promising more effective legal protections for investors. It could also help facilitate passage of a long-delayed new Civil Code, which contains a Western-style commercial code.

These principles, while laying the groundwork for market-economy reforms, are thus far more theoretical than practical. A lack of legislation in many areas of economic activity, as well as the absence of a reliable system to enforce existing legislation, are obstacles to achieving an investment climate that will attract substantial foreign investment. Key questions, such as land ownership, land purchase by foreigners, privatization conditions, and taxation reform remain unresolved.

Increasing corruption and crime, while not as serious a problem in Ukraine as in Russia, is a significant factor inhibiting legitimate business activity and foreign investment in Ukraine. President Kuchma has declared the fight against organized crime to be one of the top priorities of his administration, but up to this point little real progress has been made.

There is a broad understanding of these problems within Ukrainian official circles and a general consensus among reformers on the need to ensure that foreign investors are greeted with a more favorable legal and regulatory climate in the future. The hard work of translating that consensus into law is one of the most important challenges facing the Ukrainian political system today. Ensuring that these laws are effectively executed is an equally great challenge.

Ukrainian-Russian economic relations will likely continue to influence the larger investment picture in Ukraine. Areas of particular strain involve energy supplies and gas transit. Concern also exists about possible Russian

attempts to exert economic pressure on Ukraine, particularly in the trade area.

C. Political System, Election Schedule, Orientation of Major Political Parties

Ukraine continues to make steady, if slow, progress toward developing a democratic state based on the rule of law. Under Ukraine's first post-Soviet Constitution, adopted on June 28, 1996, power was formally divided among three branches of government -- the executive, the national legislature, and the judiciary. Although the new Constitution has not definitively resolved the formal division of powers among the three branches of government, it has provided the Ukrainians with a strong, legal framework for addressing this problem. More importantly, it has codified the fundamental rights of free speech, freedom of the press and assembly, and freedom of religion for all Ukrainians.

Ukraine's unicameral Parliament, known as the Verkhovna Rada, has 450 seats and is elected to a four-year term. Beginning with the March 1998 elections, half of the Rada's seats are filled from individual single-seat districts, while the other half are filled from political party lists. Ukrainians elected a new Rada in March 1998. Leftist parties such as the Communists, Socialists, and Peasants made modest gains in the elections, but an influx of new business-oriented deputies elected in single-seat districts has diluted their influence somewhat.

The Ukrainian Prime Minister, whom the President nominates, is subject to the Rada's approval. The Prime Minister is responsible for heading the government and his primary duties include selecting and chairing the Council of Ministers. The division of powers between the Presidency and the Prime Minister's office, however, has often proved to be an issue of contention. President Kuchma has dismissed three prime ministers in the past four years, although the current prime minister has been in office since July 1997.

Ukraine's Presidency remains the preeminent post in the Ukrainian government. The President is the commander-in-chief of the armed forces and may veto Rada legislation. The Rada can override Presidential vetoes by a two-thirds vote. Under the new Constitution, Ukrainians hold presidential elections every five years and are scheduled to return to the polls in October 1999.

The most influential political parties are:

(Note: Virtually all Ukrainian political parties remain dominated by key personalities and have not yet developed into mature organizations such as those in many Western democracies. That said, some ideological and nationalistic divisions do exist across the Ukrainian political party spectrum. Eight parties and blocs entered Parliament in the March 1998 elections, and formed their own Rada factions. However, since late 1998, several of these factions have split, and independent deputies have also been instrumental in forming new factions and groups, of which there are now 15 in the Rada.)

Communist Party (KPU):

Ukraine's strongest party organizationally, the Communist Party is anti-Kuchma and anti-reform. The Communists constitute the largest single faction in the Rada but were unable to elect their leader, Petro Symonenko, to the post of Rada Chairman. The Communists generally oppose the 1996 Constitution and, in particular, privatization. They would also like to see a return to some form of central planning, the nationalization of the banking system, the abolishment of the Presidency, and closer ties with Russia. The party's primary base of support lies among disillusioned elderly and middle-aged voters. The Communists received 25% of the vote in the March 1998 party-list portion of the Rada elections.

Rukh:

Established in 1989 as the principal democratic, pro-market, moderate nationalist opposition movement, Rukh was Ukraine's second largest political party, receiving nine percent of the party-list vote in the March 1998 elections. However, the future of the party is unclear after an acrimonious split into two wings in early 1999. The schism was followed shortly by the tragic death of party leader and nationalist icon Vyacheslav Chornovil. Henadiy Udovenko and Yuriy Kostenko now head the two Rukh wings.

Socialist Party:

Led by former Rada Chairman Oleksandr Moroz, the Socialist Party was formed in 1991 to circumvent the government's ban on the Communist Party. The Socialists are less Marxist-Leninist in orientation than the KPU, and Moroz has hinted that he would like to move the Party in the general direction of European social democracy. However, rank and file members still favor state control of key industries and closer ties to Russia and the Commonwealth of Independent States. The Socialists ran in an electoral bloc with the leftist Peasant Party and the bloc received eight and a half percent of the party-list vote in the March 1998 elections. However, the two parties split in October 1998.

Green Party:

The Green Party, formed in the early 1990s, supports environmentally-friendly policies, such as the closure of the Chornobyl nuclear power plant and energy conservation. The Party supports Ukraine's neutrality in most foreign policy matters. The Greens have benefited from an influx of new businessmen who also favor overhauling Ukraine's tax system to better accommodate business and consumer interests. The Party's success in the March 1998 elections came as a surprise to most observers; they received roughly five and a half percent of the party-list vote.

People's Democratic Party (NDP):

The Centrist NDP was formerly known as the "party of power" for its close government connection. It received five percent of the party-list vote in the March 1998 elections, and for a time had the second largest faction in the Rada, after the Communists. However, independent deputies began to leave in late 1998 after some members of the NDP leadership became increasingly critical of the President. The Kuchma opponents finally were forced out in May 1999, and the reconstituted pro-government party is now headed by Prime

Minister Pustovoitenko. The NDP's Rada faction is now much diminished. Former faction deputies have been instrumental in creating two new generally pro-administration factions, "Regional Revival," and "Trudova Ukraina" (Labor Ukraine).

Hromada:

Hromada, formed in 1993 by a group of former Communists, was rejuvenated in 1997 when former Prime Minister Pavlo Lazarenko (removed by President Kuchma in July 1997) and Yulia Tymoshenko, former head of the prominent United Energy Systems company, took control. Hromada virulently opposes President Kuchma and the present government. Hromada received roughly four and a half percent of the party-list vote in the March 1998 elections. However, Lazarenko's detention in the United States has thrown the Party into disarray, and Tymoshenko and the majority of Hromada's Rada deputies split off to form their own faction, "Batkivshchina" (Fatherland).

Progressive Socialist Party (PSPU):

Led by Natalia Vitrenko, the Progressive Socialist Party, which broke with the Socialist Party in 1997, has been stridently anti-reform, constituting the hard left of the political spectrum. Leaders of the party have accused the Communists and Socialists of betraying Marxist-Leninist ideals. The PSPU calls for building a Soviet Socialist Ukraine, abolishing the presidency, establishing closer ties with Russia and Belarus, and opposes cooperation with NATO, the IMF, and the World Bank. The Progressive Socialist Party received four percent of the party-list vote in the March 1998 elections.

Social Democratic Party (United) (SDPU(O)):

This small party grew in stature prior to the March 1998 elections by attracting former President Leonid Kravchuk and former Prime Minister Yevhen Marchuk to its electoral slate, and received four percent of the party-list vote in the March 1998 elections. The SDPU (O) favors a "socially-oriented market economy," using market economics to generate resources for better social protection, and is business-oriented. The party deposed its former leader, former Justice Minister Vasyl Onopenko, in October 1998, and Marchuk left the party's faction in 1999 after the SDPU(O) declared its support for Kuchma's reelection. The party is now led by Rada Deputy Speaker Viktor Medvedchuk, and claims his ally, business magnate Hryhoriy Surkis, as a member.

Peasant Party

The leftist Peasant Party entered Parliament in March 1998 in a bloc with the Socialists. However, the two split in October 1998, and the Peasants now have their own small Rada faction, led by Serhiy Dovhan. Rada Speaker Oleksandr Tkachenko is a member of the party.

Reforms and Order Party

This market-oriented, pro-Western party was founded in 1997, but failed to gather the required four percent of the party-list vote in the March 1998 elections to enter the Rada. However, several of its deputies were elected in

single-seat districts. In December 1998, these allied with a handful of single-seat nationalists to create what is now called the "Reforms-Congress" faction. The faction is led by former First Deputy Prime Minister Viktor Pynzenyk.

Chapter IV: Marketing U.S. Products and Services

A. Distribution and Sales Channels

The Ukrainian commercial infrastructure, while still only partially developed, has matured rapidly since Ukraine gained independence in 1991. During the Soviet period, distribution networks (as they are known in the West) simply did not exist in Ukraine. Relationships between producers, suppliers, and end-users were disconnected; the command-administrative system simply directed goods and services with little rationale. The breakup of the Soviet Union resulted in the severe dislocation of supply and distribution networks, and many Ukrainian consumers found themselves with bare shelves and widespread shortages of basic goods. This created an important vacuum for upstart Ukrainian entrepreneurs and the birth of a more market-based supply and distribution system.

During the last several years, a network of chain stores, brand name stores and supermarkets has emerged in Ukraine. They are usually located in the downtown areas of cities and are owned by Ukrainian or foreign private entrepreneurs. These are the most expensive retail outlets, initially designed for the nouveau riche to shop. Although there is some competition among newly emerged distribution outlets and old-fashioned stores, each caters to the demands of a different group of consumers.

Univermahs (department stores), universams, hastronoms, specialty stores, and "rynky" (bazaars) still remain the main spots for low and middle class general end-users to shop. Department stores sell both locally produced and imported goods and rent space to several sellers of brand name cosmetics and personal care products. Universams, hastronoms, and specialty stores can be found in all municipal districts of Ukrainian cities. They sell mostly food items; however, some of them distribute generic brands of personal care and household items.

Today, all former state-owned shops and department stores have been privatized into joint stock companies and have an opportunity to deal directly with producers and wholesale traders who supply the major share of imported products to the local market. There is an advantage to dealing with wholesalers in that they provide certification and license procedures for the imported products. Generally, department stores add 25% to the cost of general consumer products and 5% to audio-video goods and home appliances. The share of domestically produced products available in Ukrainian stores varies anywhere from 40-60%.

Directly importing products from foreign producers and distributors by local department stores is complicated and costly. The annual credit rates necessary for purchasing products equal 65-70%. Also, a high value-added tax (VAT) for imported products, excise and customs duties will add an additional 40% to the cost of a product.

Establishment of joint ventures with foreign trading companies is an alternative to direct purchasing. A foreign partner is required to supply the equipment and products, and to provide appropriate training for the local staff. However, the current share of products sold through joint ventures between Ukrainian department stores and foreign suppliers is very small (only 2-3%).

The sheer geographic size of Ukraine and its relatively high level of population dispersion (only about 10% of Ukraine's population lives in the three largest cities) makes establishing a viable, reliable distribution network of great importance. Major U.S. companies such as Coca-Cola, Kraft-Jacobs-Suchard, Mars, PepsiCo, Procter & Gamble, and SC Johnson (Johnson Wax and Tambrands) have developed strong sales and service networks in Ukraine, which will ultimately strengthen their market-share potential. While some of the larger firms use their own internal customs clearance and distribution networks, several smaller companies use freight forwarders for distributing products. In addition, indigenous Ukrainian food manufacturers, such as Svitoch (confectionery), Obolon (brewery), Slavutych (brewery), and Chumak (a Ukrainian-Swedish vegetable cannery), are developing excellent widespread distribution networks.

Western Ukraine has become one of the most dynamic trading regions of Ukraine. In the last few months of 1997, three new border crossings to Ukraine's western neighbors were opened, which significantly increased the trading activity in the region. Roads are being modernized and upgraded to speed communications. Forty additional miles of railroad track is planned to be relayed between L'viv and the Polish border. The city of Chernivtsi occupies a very favorable location due to its close proximity (30 kilometers) to Romania, as does Uzhhorod, which is on the border with Slovakia and is not far from Hungary. Nearby, in the town of Chop, a modern road transport entry and customs facility has been constructed, reducing delays to about 20% of the original time. During the last few years, L'viv, one of the most important industrial, cultural, trading, and tourism centers of western Ukraine, has transformed into one of the most free market cities in Ukraine. Oblast retail and wholesale joint ventures are growing fast and are becoming of increasing economic importance to the western region.

In exporting directly from the United States to Ukraine, the least expensive and most reliable means of transport is by sea, through 18 marine ports in Ukraine, including Odesa, Illichevsk, and Mariupol. Well-known shippers such as SeaLand (U.S.) and Maersk (Denmark) have operations in Ukraine, with onward distribution throughout Ukraine.

Rail is another cheap, but less reliable method of shipping products throughout Ukraine. Rail traffic has fallen substantially since Ukrainian independence and minimal backups at crossing points make rail transport an interesting alternative to other forms of transport. Press reports claim that Maersk plans to open rail cargo service to all points in Ukraine in the near future. Nearly 23,000 kilometers of railway connect Ukraine with Poland, Slovakia, and Hungary, as well as to eastern and northern points of the NIS.

The most popular, efficient, and costly means of transporting goods within Ukraine is by overland truck. Ukrtrans (Ukrainian) and Corstjens

(Netherlands) provide service to a number of commercial and diplomatic entities in Ukraine, although price is a factor that U.S. companies should consider. Due to poor road conditions and security issues throughout Ukraine, trucked cargo is priced by the kilometer rather than by weight. Ukraine, which is the size of Texas, therefore presents a fairly costly shipping scenario.

Without reliable credit histories and business background reports, common sense is key in developing a strong distribution and sales channel in Ukraine. U.S. companies can utilize regional distribution networks with contacts throughout the country and, more importantly, these on-the-ground entities can troubleshoot the myriad of obstacles that characterize trade in this emerging and challenging market. The Commercial Service offers a very cost-effective Agent/Distributor Service, which screens and identifies up to six potential distributors of U.S.-made goods and services.

B. Use of Agents and Distributors; Finding a Partner

As in any foreign country, a local partner or representative can provide valuable insight and commercial intelligence that might otherwise be missed by the U.S. businessperson. A local representative can be especially helpful in newly emerging markets, where a strong business information network has yet to develop. However, before entering into a distributorship or agent agreement, U.S. companies are advised to keep in mind the following points:

- While the extent of information on Ukrainian companies has slightly improved, there is still a significant dearth of background data and credit histories on potential Ukrainian distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or Ukrainian security company. Unfortunately, international investigation agencies do not cover Ukraine. To find a potential partner, U.S. companies may also wish to use the U.S. Embassy's Commercial Service programs: the Agent/Distributor Service (ADS) and International Company Profile (ICP) (a "background check" on Ukrainian companies).
- The Embassy strongly advises that all U.S. companies consider legal counsel before and while doing business in Ukraine. Given the tenuous commercial environment and weak legal infrastructure, it is critical to obtain solid legal advice in structuring your company's investment. Furthermore, it is quite important to remain up-to-date regarding ever-changing laws and regulations. Legal counsel can provide general advice on fluctuations in the commercial environment in Ukraine and prevent emerging disputes between partners in the future. Ukrainian laws and regulations are vague and open to considerable leeway in interpretation, providing ample corruption opportunities for officials at every bureaucratic level. U.S. businessmen are advised that partnership with a Ukrainian company is a challenge that is beyond constant control of the U.S. partner and his legal advisors.
- When drafting a contract on partnership with a Ukrainian company, a U.S. investor has to consider including an anti-bribery provision. According to the OECD Convention, which came into force in February 1999, "foreign public officials", including all branches of government, international

organizations, state enterprises, political parties and candidates, are subject to anti-bribery prohibition concern. In addition, paying unusually high commissions to a distributor, hiring a representative who is a relative of a local government official, other improper advantages and improper accounting practices are subject to criminal and civil liability under anti-bribery legislation of the United States.

- It is typical for Ukrainian companies to seek to establish long-term business relations on consignment or an equal investment sharing basis. U.S. exporters are advised to start with small sales and full pre-payment or letter of credit terms. U.S. exporters should be cautious about any balance payments, due to constantly changing rules on local banking procedures.
- Look for regional projection: Kyiv is not the only hub of trade in Ukraine. Look for distributors that have nationwide capabilities, including the cities of L'viv, Odesa, Zaporizhzhya, Dnipropetrovsk, Donetsk, and Kharkiv. These regions are considered important industrial centers of Ukraine and are densely populated. Due to significant distance from foreign borders, demand for various kinds of products in the remote oblasts is not satisfied. Local prices are higher than those in the central and western oblasts of Ukraine. When entering into a distribution contract, U.S. exporters are advised to consider the advantages of selling products to major industrial centers rather than focusing only on a relatively satisfied Kyiv market.

To boost investment, the government of Ukraine established the National Agency of Ukraine for Development and European Integration (NAUDEI), which joined together the State Credit and Investment Company and the Agency for Technical Assistance Coordination. NAUDEI is designed to promote Ukraine as an investment opportunity by providing potential Western investors with information on Ukrainian companies and legal environment. Foreign investors can use NAUDEI's database as one source of information when looking for a potential Ukrainian partner.

Since 1997, several regional Ukrainian Agencies of Economic Development (AED) were created to operate in the framework of the United Nations International Development Organization. The AED located in the city of Dnipropetrovsk created a comprehensive database of enterprises in the oblast and is very aggressive in promoting Dnipropetrovsk as an investment destination.

C. Franchising

As of July 1999, franchising is not widespread in Ukraine. Western investments in Ukraine with franchising potential (i.e., McDonald's, Coca-Cola) are currently corporately owned, and very few Ukrainian businesses have recognized the potential for franchising. McDonald's has dominated the fast-food sector in Ukraine. Although other successful examples of franchising projects can be found - such as Express Personnel Services, Xerox copy centers, Kodak photo developing centers in Kyiv, Baskin Robbins and Dunkin Donuts in Kharkiv. In October 1997, the USAID Mission in Ukraine initiated a franchise development project managed and provided by SIBLEY International. Several pilot projects were selected including medical services, home repair/renovation outlets, wholesale and retail food distribution, and

consumer electronics. The assistance has resulted in the establishment of eight franchises.

The Ukrainian market offers many opportunities for international franchising. However, as an entrepreneurial activity, franchising encounters the same general barriers as does the establishment of small and medium businesses. These include the whole complex of taxes, high credit rates, crisis of nonpayment, unstable legislation, and very strict control under the subjects of entrepreneur activity by the state. The investment climate remains the major obstacle for franchises in Ukraine.

D. Direct Marketing

Direct marketing is a concept new to the Ukrainian market. One of the major issues that has impeded the development of direct marketing in Ukraine is the use of cash for nearly all transactions. Moreover, promotional materials should be detailed and in the Ukrainian language. Presently, there is a notable absence of vending machines, mail-order houses, specialty or chain stores, and direct retailing. The usual practice for marketing products is done through large, diverse department stores, kiosks, or marketplaces.

Marketing for industrial goods and commodities is done largely by distributor warehouses, exhibitions, trade shows, and mail catalogs sent (with price lists) to the end-user. The industrial goods market is, for the most part, dependent on foreign credits and can involve barter transactions. Leasing and/or the contribution of equipment to statutory funds of a joint venture can also be effective marketing techniques.

E. Joint Ventures / Licensing

Joint Ventures:

Joint ventures as a form of business, including those between Ukrainian and Western partners, were popular in Ukraine immediately after the start of the transformation to a market economy. They were viewed as a compromise between the customary form of business oriented towards national ownership and the necessity to attract foreign investors and learn foreign business practices. A number of privileges and benefits, including tax exemptions, were offered as incentives to establish joint ventures.

In Ukraine's legislation the term "joint venture" has two meanings:

- 1) Joint ventures are enterprises established primarily to pool assets of different owners and are of mixed-type ownership;
- 2) Joint ventures are based on the common capital of Ukrainian business activity entities and foreign business activity subjects, as well as on joint management and common distribution of results and risks.

In practice, however, the term is used to determine businesses set up by Ukrainian and foreign founders. A joint venture is established both by its immediate establishment and as a result of a foreign investor's interest in a Ukrainian enterprise (taking possession of stocks, part of authorized capital).

The availability of a foreign investor is a prerequisite for the founding and functioning of a joint venture. Definite peculiarities exist with the possible participation of state-owned enterprises in creating joint ventures. According to existing laws in Ukraine, the State Property Fund of Ukraine and agencies to which this fund delegates its authority are entitled to establish joint ventures on the behalf of state-owned enterprises.

As far as legal forms of joint ventures, the legislation of Ukraine establishes no limitations - they are free to be established as limited corporations, stock companies, and other associations, etc. State registration is mandatory when establishing a joint venture. When registered, an enterprise is put on the list of the State Register of enterprises of Ukraine.

A joint venture has all the rights of a legal entity as soon as it has its state registration. Joint ventures may perform business activities of any kind, except for those prohibited by law. Licensing is mandatory for certain kinds of activity (insurance, audit activities, lawyer, veterinary practice, and exploring and exploiting natural resources).

Another specific feature of the joint venture's legal status should be noted: the special regime of protecting founder rights and interests, which are to be determined at the legislative level. This legislation stipulates that foreign investments in Ukraine are not to be nationalized, and state administrations have no right to requisition foreign investments, except for undertaking rescue measures in the case of natural disasters, accidents, epidemics, or wide-spread animal diseases. Foreign investors have the right to reimbursement of losses due to illegal actions, stagnation of authoritative bodies or their officials, and inadequate execution of their duties imposed by laws with regard to a foreign investor. In case of terminating his/her activity, a foreign investor-founder has the right to be repaid for his/her investment in physical assets or in currency in the actual amount of a contribution as well as incomes obtained from investment in monetary or commodity form in accordance with the actual market value at the time of investment activity termination.

Foreign Investment Legislation:

Ukrainian foreign investment legislation has changed with disturbing frequency since Ukraine's independence in 1991 (usually not in favor of foreign investors). Taxation is a good example. On March 19, 1996, the Parliament adopted a new law on the foreign investment regime. This law put an end to the previous automatic five-year tax exemption. Under the old foreign investment law, any company with \$50,000 in registered "qualified foreign investment" was guaranteed tax breaks and was ensured they would not change for 10 years. Article 27 of the new law voided previous investment laws, including:

- "Law on Foreign Investments," dated March 13, 1992;
- Cabinet Resolution on a Foreign Investment Regime, dated May 20, 1993;
- "Law on a State Program for Attracting Foreign Investments," dated December 17, 1993.

On October 23, 1997, the "Law on Company Profit Tax" canceled the five-year tax exemption for all companies registered after this date. Meanwhile, top Ukrainian government officials assured foreign investors that there were no more automatic tax exemptions and that Ukraine would sign special agreements providing large foreign investors with tax and other privileges on a case-by-case basis.

On September 19, 1997, Parliament adopted the "Law on Stimulating Auto Production," which grants various customs duties and VAT exemptions, favorable terms for land, and company tax payments to any company investing \$150 million into Ukraine's auto production industry.

The new foreign investment law lowers the requirement for "enterprises with foreign investments" from 20% ownership in the statutory fund to at least 10%. This, combined with no minimum capitalization requirements, should encourage foreign investments.

There are several points to note in the new law:

- 1) Registration of foreign investment with local authorities is required;
- 2) Foreign investment includes:
 - creating joint ventures;
 - acquiring stock in existing enterprises;
 - creating wholly-owned foreign subsidiaries;
 - acquiring real estate such as apartments, houses, land use rights;
 - acquiring property rights by purchasing securities and stock of enterprises with such property rights;
- 3) Previous legislation gave foreign investors special privileges in the market. The 10-year investment guarantee was unilaterally revoked by Ukraine's Parliament on October 23, 1997, in direct violation of this law;
- 4) Foreign investors are guaranteed unhindered and immediate rights to repatriate their profits abroad, but only after the investor pays a 15% repatriation tax and other mandatory payments in Ukraine;
- 5) Any in-kind foreign contributions imported for a company's statutory fund are exempt from customs duties. All import duties must be paid if an enterprise sells, transfers or otherwise alienates the contributed property for any reason, including the termination of activities;
- 6) Foreign investors are granted general protection of Ukrainian intellectual property rights, and the right to decide whether to seek patent registrations in Ukraine or abroad.

It has become apparent to investors that the country's foreign investment legislation is sorely lacking in predictability. Recent amendments to legislation clearly demonstrate that guarantees to foreign investors can be retroactively revoked. The law extends rather minimal favorable treatment and guarantees to all types of foreign investors, including physical and legal entities.

Licensing:

Licensing of products, technology, technical data, and services is being widely introduced in Ukraine. Due to the long list of activities subject to licensing, the large number of government agencies involved in the licensing process, and obscure and contradictory instructions, licensing is viewed as

one barrier in the way of foreign investment - the typical business has to secure roughly a dozen licenses. Efforts are being made to reduce the number of licenses required. The Law of Ukraine "On Changes in the Law of Ukraine On Entrepreneurship" establishes licensing provisions and restrictions.

F. Steps to Establishing an Office

Shares in a Ukrainian company can generally be issued or sold to non-Ukrainian residents without restriction. There is no limitation on the percentage of ownership of a foreign investor in most types of Ukrainian companies. Preferred forms of foreign investment operations in Ukraine are: a joint stock company, limited liability company, wholly-owned subsidiary, and representative office. For regulatory and taxation purposes, with some exceptions, representative offices are treated similarly to independent legal entities. Some industries, including banks and insurance companies, are more heavily regulated, and must be established in compliance with specific requirements.

It is possible for a foreign company to establish a representative office in Ukraine. A representative office can carry out marketing, promotional, and other auxiliary and preparatory functions on behalf of the company. The establishment of a wholly-owned company in Ukraine would be recommended if the company intends to carry out manufacturing or other significant local commercial activities. There is no prohibition for a foreign legal entity to have both a representative office and to establish a wholly-owned subsidiary at the same time.

The most widely used forms of legal entities in Ukraine are the joint stock company (JSC) and the limited liability company (LLC), with Ukrainian and foreign participants. In choosing between a LLC or JSC, it is generally recommended that a LLC be used since it is easier to manage than a JSC.

A Joint Stock Company is a company in which the shareholders are only liable for the obligations of the entity to the extent of their capital contributions. There are two types of JSCs: public and closed. A public JSC is established via a public offering and subscription of shares; a closed JSC's shares are distributed privately among the founding shareholders. At least two founding shareholders are necessary to create a JSC. They are free to determine among themselves the share distribution that each will have in the legal entity. Shares issued by both closed and public JSCs must be registered with the State Commission of Securities and Stock Market. There are two levels of taxation: the JSC is taxed on its profits and the shareholders are then taxed when dividends are distributed.

In a Limited Liability Company, the stakeholders like with a JSC are only liable to the extent of their capital contributions; ownership interests are expressed in terms of contractual rights that arise out of the foundation documents. A transfer of ownership rights is accomplished through an assignment of contractual rights. Interests in a LLC are not deemed to be "securities" and, therefore, are not subject to registration with the State Commission of Securities and Stock Market. As with a JSC, there are two levels of taxation for a LLC.

Depending on the needs of your company and your long-term plans, any one of these three legal forms for creating a legal entity in Ukraine (a representative office, a 100-percent wholly-owned subsidiary, and a joint venture, either as a stock company or limited liability company) may be suitable. Generally, foreign investors engaged in business activity in Ukraine must register in Ukraine as either a resident company or a permanent representative office within one month of beginning any such activity.

Registration:

Registration of representative offices of foreign companies is handled by the Ministry for Foreign Economic Relations and Trade (MFERT) of Ukraine, and is done within 60 days of submission of all required documents and upon payment of a \$2,500 fee.

For registration of a representative office, a foreign business must submit the following documents (translated into Ukrainian):

- 1) A company charter (joint ventures need a foundation agreement);
- 2) An application for the registration of a representative office containing:
 - 1) An extract from the trade or banking register of the country in which a foreign entity of business activity has its office officially registered;
 - 2) A proxy demonstrating the individual who will represent the company in Ukraine with references to the opening of bank accounts;
 - 3) A power of attorney from the regional office where the company is officially registered confirming that the company is entitled to certain activities and operations.

The above-mentioned documents should be notarized in the country in which the company is registered, translated, and duly-certified at a Ukrainian consulate abroad, unless otherwise stipulated in the international agreements of Ukraine.

Within a month of obtaining a registration certificate, a representative office must register with the local tax inspectors.

All business entities with legal entity status (resident or foreign) shall be officially registered by the executive committee of city, city district, regional councils [of people's deputies], Kyiv and Sevastopol district state administrations (hereinafter referred to as official registration authorities) at the place of residence of a given business entity, unless otherwise provided by law.

The following documents should be produced for registration:

- 1) constituent agreement (when two or more owners);
- 2) the statute (company charter), if one is required by the form of organization;
- 3) registration card, serving as an application for official registration;
- 4) document attesting to the payments of the official registration fee;
- 5) document attesting to the contribution of the entity's statutory (authorized) fund in the amount provided by law-certificate of the statute capital prepayment (50% - for a JSC, and 30% - for a LLC). In case an owner is a foreign legal entity, an extract from the trade, bank or court

register must be produced to certify registration of the investor in the country of origin.

These documents must be duly approved according to legislation of the country of issue, translated into Ukrainian and legalized in a consulate of Ukraine. It should also be approved in the Embassy of the corresponding country in Ukraine and legalized in the Ministry of Foreign Affairs of Ukraine.

After registration, the company must be registered with the state tax and statistics authorities, and can appoint a board of directors who open the company's bank accounts

G. Selling Factors / Techniques

Prior to considering the Ukrainian market, any U.S. company should be aware of two contradictory beliefs deeply ingrained in the mind of Ukrainian customers. The first factor is the enthusiasm for Western products, and the second is the belief that local products are much more reliable. This is in part due to the flood of imported goods of dubious origin and poor quality - many of which are falsely marketed under well-known brand names. Launched in 1997, a "local producer protection" policy produced a media campaign whose underlying idea was "distrust imported products." During the past few years, locally produced food products and beverages have gained a strong position in the Ukrainian market. An inner conviction about reliability of local products and predilection to familiar goods plays a decisive role in consumer behavior.

Broad promotional advertising is necessary to acquaint the average Ukrainian with unfamiliar brand names. Consumer confidence in a particular product is boosted by a description, list of ingredients, warranty or maintenance guarantee. Ukrainian consumers are turned off by products with Western brand names that are manufactured in Asia or other former Socialist countries (other than Ukraine).

One of the key factors influencing the marketing of U.S. products in Ukraine is the right choice of an agent or distributor. If a U.S. company intends to have a long-term relationship with its Ukrainian partner, it is wise to get to know the business partner and his/her business as much as possible from the onset. Coordination and agreement regarding sales policies and pricing is absolutely necessary. Local businesses are oriented towards high profitability, which can seriously impact the marketability of U.S. products. U.S. exporters should be aware that their Ukrainian partner(s) have to deal with a number of indirect duties and commercial risks which will influence their pricing policy. Generally speaking, the sales policies of U.S. companies interested in the Ukrainian market should take into account the unique features and challenges of this developing market. Rather than try and apply sales policies used in Western and Central Europe (or even Russia), a flexible and cooperative policy, oriented towards a long-term presence in the market, is much more likely to bring expected results.

Problems have arisen for U.S. companies that operate through their European subsidiaries. In many instances, higher European prices decrease the price competitiveness of U.S. products. Additionally, working through European subsidiaries may be perceived by Ukrainian businesses as an additional layer of bureaucracy. Ideally, a U.S. company interested in conducting a successful

business operation in Ukraine should have an in-country representative and an established network of distributors and sellers. Offering a flexible credit policy is important for small-scale Ukrainian companies, which do not have access to large amounts of money for the promotion of a new product and the training of personnel. A local company's access to loans and credit is limited by high interest rates and short repayment terms demanded by local banks.

H. Advertising and Trade Promotion

In the days of the former Soviet Union, foreign visitors were amused by the direct simplicity of Soviet "advertising"; shops were distinguished by unlit signs stating "milk," "bread," "meat," "ice cream," etc. As there was no formal product competition or market system to create incentives for quality production and purchase, there was no need to advertise one item versus the other. This presents both opportunities and potential pitfalls for U.S. companies seeking to advertise in the Ukrainian market.

Today, there are reportedly some 500 advertising agencies in Ukraine, many of which provide a wide range of services that Western companies are accustomed to. Ukrainian television and radio advertising is on the rise; together they account for some 58 percent of total advertising in Ukraine. Newspaper advertising, accounting for 23 percent, remains popular with half of the space in journals and publications consisting of advertisements. Outdoor advertising, comprising 19 percent of the advertising market in Ukraine, is also proving to be very effective and popular. Outdoor advertising companies must obtain licenses from local authorities that are issued for a period of six months to five years.

The major Ukrainian papers/journals which may be used for advertising include:

- Den (daily);
- Fakty (daily);
- Holos Ukrayiny (daily);
- Kiyevskiye Vedomosti (daily);
- Vseukrainiskiye Vedomosti (semi-weekly);
- Silski Visti (daily);
- Uryadovyy Kuryer (daily);
- Vechirnyy Kyiv (daily);
- Delovaya Ukraina (semi-weekly);
- Biznes (weekly);
- Chas/Times (weekly);
- Dilo (weekly);
- Halytski Kontrakty (weekly);
- Posrednyk (weekly);
- Kapital (semi-monthly);
- Kompan&on (semi-monthly);
- Zakon i Biznes (weekly);
- Zerkalo Nedeli (weekly).
- RIO (weekly);
- Telenedelia (weekly);
- Express-Obyava (semi-weekly);
- Aviso (semi-weekly);
- Natali (semi-monthly).

The major English-language papers/journals are:

- Eastern Economist (daily/weekly);
- Intelnews (daily/weekly);
- Kyiv Post (weekly).

Initial consumer education, an effective foundation for Western advertising approaches, is key in transmitting an effective message to the consumer. Many Ukrainians, cautious and cynical by nature, are skeptical of flashy advertisements. "Word of mouth" advertising and establishing a strong reputation for one's product or service is particularly critical in this developing market, where many consumers are painfully unaware of competitive pricing and quality certification.

The demand for public relations services in Ukraine is growing. PR-agencies provide their clients with the following non-direct advertising services: organizing media-relations such as press-conferences, press-tours, mass media advertising; developing positive contacts with journalists and editors; forming strategies; organizing special events such as presentations, social events, VIP-parties, shows; lobbying; crisis management (rumors management); speechwriting, etc.

On July 3, 1996, the Rada approved a new law on advertising. It establishes the parameters for copyrights and trademark identification, and sets guidelines for all types of advertisements in print and electronic media. The law regulates advertising for firearms, pharmaceuticals, medical equipment, financial services, alcohol and tobacco products. Advertising for alcohol and tobacco products is prohibited from being shown on television and cannot be placed on the first or last pages of newspapers and magazines; advertisements also cannot feature the actual use of alcohol or tobacco products.

On request, CS Kyiv can provide an extensive list of advertising agencies, as well as print and television media operating in Ukraine.

I. Product Pricing

High import tariffs, VAT taxes, and the small number of suppliers of Western-made products in the Ukrainian market keep prices at a high level. To date, the Ukrainian market has been flooded by low-quality, cheap goods from Turkey, China, the Middle East, and former Socialist-bloc countries. However, despite the higher prices, there is a growing tendency for Ukrainians to buy quality, Western-made products.

The majority of suppliers of Western-made products are able to keep prices high because they are oriented towards the "elite" consumers - foreign residents and the recently emerged nouveau riche. This quest for high profitability can seriously impact the marketability of U.S. products.

When establishing prices, exporters should consider the purchasing power of the average Ukrainian consumer. According to the Ministry of Economics, in the beginning of 1999, the overall volume of sales of general consumer products decreased 8.6 percent. In February 1999, per capita product consumption was 28.4 hryvnia (approximately \$ 7) per month. Meanwhile, the

average Ukrainian per capita monthly wage has decreased significantly, from \$ 62.7 in 1998 to \$ 43 in April 1999. However, there is a fast-growing segment of the population whose disposable income is rising due to the increase in entrepreneurial activities.

When developing pricing policies, U.S. suppliers should also note the regional and age differences among end-users. The demand for Western-made products is far greater among the younger generation, with the sharpest contrasts seen between the under-45 and over-45 age groups. The widest differences are in the purchase of vehicles, personal care products, candy, jewelry, household goods, and electronics. The correlation between education level and product demand is not as evident as in Western economies, as unfortunately, many educated consumers are part of the low income population.

It is important to note the regional variations in demand and price of Western-made consumer goods, although these differences are becoming less pronounced. While the Kyiv area is typically well-supplied with various products, remote areas are not. Kharkiv, Dnipropetrovsk, Donetsk, L'viv, and Zaporizhzhya offer good potential for foreign exporters interested in expanding their operations in Ukraine.

The Cabinet of Ministers of Ukraine has price-setting authority, and determines lists of products, goods, and services whose costs are subject to approval by specific divisions of the government. Changes in government-fixed and regulated prices and tariffs may be put into effect due to a change in production and sale conditions, regardless of the manufacturer's performance.

When conducting export and import transactions directly or via foreign economic intermediaries, contractual (foreign trade) prices formed in accordance with world market costs and conditions are used in settlements with foreign partners.

Enterprises, organizations, and individuals have the right to turn to arbitration to contest price violations on the part of bodies of the state, enterprises, organizations, cooperatives, and other legal and physical persons, and claim damages when sold goods and rendered services are contrary to current laws.

Prices in Ukraine typically include a 20% VAT and other taxes. Retail prices include a 20% VAT, while wholesale trade prices usually do not include a VAT, which is cited separately.

J. Sales Service / Customer Support

To succeed in the Ukrainian market, companies should pay attention to sales service and customer support. For one, the Ukrainian market is far from saturated; it is still getting started, thus presenting a unique opportunity for U.S. companies. With some 50 million people, Ukraine has the potential to become one of Europe's most important markets in the future. Because of Ukraine's size, there is plenty of room for competing companies with competing strategies. The demand for quality products and customer support is becoming stronger, which has driven companies to emphasize quality, after-sale service, installment payments, and other sales service practices.

A key element to succeeding on the Ukrainian market is the establishment of a network of after-sale support centers for goods and equipment. Maintenance centers are especially important for a variety of industries, including household appliances, telecommunications equipment, consumer goods, and vehicles. In February 1999, the Cabinet of Ministers adopted a decree on after-sale service and maintenance of household appliances. According to this legislation, documents that testify origin, price, after-sale obligations of the manufacturer, rules of use, manufacturer's address, and information on certification in Ukraine are to be included with all products.

In February 1999, the Cabinet of Ministers made amendments to rules on installment payments in order to increase consumer demand for products of long-term use.

Ukraine has passed a law on the protection of consumer rights, and plans to create a national customer information system on poor-quality goods, move towards membership in the European information system, create an independent quality control laboratory, and introduce EU standards for consumer goods. In June 1999, an international conference on "Modern policies for the protection of consumer rights in Ukraine and other European countries" was held in Kyiv under the aegis of TACIS. The participants, which including representatives of over 40 countries, leading consumer goods producers, and donor organizations, agreed on establishing an intergovernmental commission on consumer rights protection.

A strong distribution system and a viable intermediary service industry are only developing in Ukraine. Western companies are better off dealing with large wholesale Ukrainian companies, and avoiding middlemen and intermediaries.

K. Selling to the Government

Large government procurements represent export opportunities for U.S. companies. However, U.S. firms should keep two things in mind. First, the Ukrainian government lacks internal resources for large purchases and companies are advised to track the tender announcements of the World Bank and the European Bank for Reconstruction and Development (EBRD), which have initiated numerous programs to assist Ukraine in its transition to a market economy. Second, reaching the "point of decision" in the Ukrainian bureaucracy can be a daunting task.

Major international financial institutions, such as the World Bank and the EBRD, have organized tenders for the procurement of goods and services to be used by Ukrainian government agencies. The presence of a Western tender organizer often makes selling to the government a more transparent practice, providing for published deadlines, proposal criteria, and more importantly, Western oversight in making final procurement decisions.

Government procurements are conducted on the basis of the Cabinet of Ministers of Ukraine Resolution #694 "On the Organization and Holding of International Tenders for National Procurement of Foreign Goods," dated June 28, 1997. Under this resolution, all government procurements above \$100,000 are conducted through one of the following tender procedures: open tenders, open tenders with prequalification, or competitive negotiations. Procurements from

UAH 70,000 (about \$17,000) to \$100,000 are offered through the following competition procedures: competitive negotiations or limited competition (when invitations for bids are sent to at least three potential suppliers). Procurements under UAH 70,000 are done on a limited competition basis. Open international tenders must be conducted when the procurement is financed by an entity that is not a resident of Ukraine.

L. Need for a Local Attorney

The U.S. Embassy strongly advises that all U.S. companies consider legal counsel before and during business practice in Ukraine. Given the tenuous commercial environment and the weak legal infrastructure, it is critical to obtain solid legal advice in structuring your company's investment. Furthermore, it is of utmost importance to remain up-to-date regarding ever-changing laws and regulations. Legal counsel can effectively provide general advice on the fluid commercial environment in Ukraine.

The Commercial Service, in its popular "Directory of Business Contacts," maintains a list of American and Ukrainian lawyers that are involved in international practice. The American Bar Association's Central and East European Law Initiative; Tel/Fax: (380-44) 212-1998, is also a useful source for finding lawyers and concerns regarding legal proceedings in Ukraine.

M. Performing Due Diligence / Checking Bona Fides of Banks / Agents / Customers

Given the difficulties of doing business in Ukraine, it is advisable for a U.S. company to perform its own feasibility study before starting a project in Ukraine. Numerous opportunities in Ukraine are commensurate with a significant level of risk. The first step in undertaking a project in Ukraine is knowledge -- knowledge of costs, risks, and returns. Two principal risk factors are involved: commercial and legal. Most of the risks are legal, permission related, and practical. What constitutes conforming to code in the U.S. does not necessarily mean the same in Ukraine. The nuances and various possible interpretations of Ukrainian laws, rules, and regulations make it almost impossible for one person to understand all the possible ramifications. In order for a contract to be truly enforceable in Ukraine one should have a lawyer, an accountant, and an interpreter even if you are fluent in Ukrainian or Russian.

Available state statistics are often unreliable, and market dynamics in Ukraine are more or less a question of an informed opinion. On a practical side, it would be wise to treat local surveys and "experts" with some caution, as there is a tendency for them to be too close to the subject matter to have an unbiased opinion.

There is no viable system for checking the financial status of a Ukrainian partner, and information on bona fides of potential Ukrainian partners should be treated with care. It is not a practice in Ukraine for banks to provide information on the financial status of their clients, and there is no nationwide service for registering enterprises of doubtful solvency.

The due diligence process performed by teams headed by Western accounting/law firms and investment advisors with a permanent local presence will give

investors a better understanding of the target company and will help in the design of an appropriate exit strategy.

Never put your fate in the hands of the unpredictable Ukrainian courts. Recent court decisions, rulings, and regulations have shown that unless contracts in Ukraine are very specifically written they may be totally unenforceable. However, this is much more true in Ukraine since the "intent" of the contract has almost no bearing when compared to the "letter" of the contract. Intent, like "industry standards" or other such concepts, is not readily recognized in Ukraine. Only the written word and the specific subject, as defined by law, have meaning.

In entering into a business partnership with the state, it is highly recommended that you ensure the state has put all of its decision-making powers in the hands of an independent manager.

Chapter V: Leading Sectors for U.S. Exports and Investment

A. Best Prospects for Non-Agricultural Goods and Services

The following is a list of FCS, Kyiv commercial specialists and the major sectors of their responsibilities:

Ruben Beliaev - Information Technologies (Telecommunications, Computers)
Lesia Polyshchuk - Building & Construction, Environmental Technologies
Yuriy Prikhodko - Tourism
Victoria Sergeeva - Energy, Oil & Gas
Olena Stephanska - Banking & Finance, Health Care
Olexandr Zavhorodniy - Transportation, Heavy Industry, Chemicals
Vacant - Agricultural Machinery & Equipment, Food Processing

All figures below are provided in \$ millions, unless otherwise noted.
Exchange rates (effective June each year):

1997	\$1.00 = HRV 1.86
1998	\$1.00 = HRV 2.05
1999	\$1.00 = HRV 4.00

1. Agricultural Chemicals (AGC)

In the last six years it has been increasingly difficult for Ukrainian producers to secure necessary pesticides and other agricultural chemicals. Local pesticide and agricultural chemical production meets only 20% of the country's annual needs and is based upon the ability to purchase imported raw materials. While the local production of pesticides utilizing local compounds is expected to meet 25% of the total demand by the year 2000, Ukraine will still need to rely on imported chemical compounds to meet the demand for pesticides. Despite the government's move to foster and increase the country's pesticide production base, a lack of capital and technology and unfavorable tax policies hinder such development. It is generally more economical to import pesticides than it is to product them domestically.

The Ukrainian agricultural sector offers U.S. companies opportunities in joint production or in simply providing the Ukrainian market with the necessary seeds, pesticides, and herbicides. Many farms have large debts owed to agrochemical companies, and the government tends to lay first claim of grain and produce; therefore, financing is a critical issue.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	N/A	150	160
B. Total Local Production	N/A	30	25
C. Total Exports	N/A	-0-	-0-
D. Total Imports	N/A	120	110
E. Import from the U.S.	N/A	41	40

(The above statistics are unofficial estimates.)

2. Agricultural Machinery and Equipment (AGM)

Many opportunities are available for U.S. companies in the Ukrainian agricultural machinery market. There is currently a critical demand for dependable farm machinery, due to the lack of reliable domestic manufacturing. Production rates at Ukrainian plants are running at 10-20% capacity and 60% of domestic machinery has fully-depreciated. U.S. agricultural machinery enjoys a good reputation. The best prospect for U.S. companies is to invest in the manufacturing of equipment in Ukraine. Simply exporting agricultural equipment to Ukraine can be costly: the Ukrainian government plans to increase import duties on agricultural machinery, has no plans to purchase equipment under government sovereign guarantee, and will support domestic manufacturing.

According to local and U.S. companies active in Ukraine, the agricultural equipment market is not easily accessible. There are many indirect barriers such as certification procedures, licensing, taxation, and lack of local financing. Financing is considered a very critical issue for local end-users; there is an estimated 48% difference between demand and purchasing power.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	425	430	495
B. Total Local Production	315	330	360
C. Total Exports	100	100	104
D. Total Imports	180	200	210
E. Imports from the U.S.	120	150	150

(The above statistics are unofficial estimates.)

3. Airport/Ground Support Equipment (APG)

The modernization of air navigation in Ukraine is a high priority of the government. The inefficient Air Traffic Control (ATC) system, a lack of adequate air traffic services, and disrepair of the air navigation and communications systems and infrastructure in Ukraine all have a direct impact on the country's ability to attract additional flights, carriers, and air

routes. Additional air carriers would be more willing to market new routes in and out of Ukraine if the conditions for air traffic services were to improve. While no firm estimates are available, it is estimated that Ukraine is under-utilizing its airspace and losing millions of dollars annually in lost overflight charges, landing fees, gate fees, aircraft service, etc. This poses a significant cost to the country.

Improvements to Ukraine's air traffic control would generate additional revenues, which could then be used to finance additional investments and improve air traffic services. In order to streamline the aviation sector activities in the country, the President of Ukraine issued a Decree in June 1997, which created the State Aviation Administration of Ukraine (SAAU) and merged the functions of the former State Air Transport Department (ATD) in SAAU. The SAAU is responsible for performing all regulatory functions such as aviation safety, security, air transport, and airspace use rules.

The Ukrainian Air Traffic Services Authority (UkSATSE) reports directly to SAAU and is responsible for the provision and operation of the Ukrainian air navigation system (ANS).

Much of the equipment and infrastructure used in providing ANS services in the Ukrainian airspace is in need of modernization. UkSATSE has initiated a modernization program. Major projects currently underway include the following:

1. Replacement of equipment at the Boryspil and L'viv Area Control Centers (ACC);
2. Replacement of the Aeronautical Fixed Telecommunications Network (AFTN);
3. Installation of VORs and DMEs.

In late 1998, the European Bank for Reconstruction and Development provided a \$25.4 million loan to UkSATSE, based on a sovereign guarantee from the government of Ukraine, for several additional projects as part of its airspace and Air Traffic Control modernization program. UkSATSE will need to import all of the equipment financed under the EBRD loan. Excluding the cost of some foreign experts to supervise the construction portions of the loan, all funds will be allocated to equipment and spare-parts procurement. The total potential for U.S. exports, therefore, is approximately \$25 million for this initial stage of the project. UkSATSE estimates that the second stage investment will be in the range of an additional \$25-30 million for upgrading all tower facilities, communications systems, and ATC systems. This will offer U.S. firms an additional export potential in the amount of \$25-30 million.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	N/A	25.4	55
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	N/A	N/A	N/A
D. Total Imports	N/A	25.4	55
E. Imports from the U.S.	N/A	N/A	N/A

(The above statistics are unofficial estimates.)

4. Building Materials (BLD)

With the collapse of the Soviet supply system for building materials, the developing Ukrainian construction industry has been looking for new supply sources and links. Since 1991, domestic production of building materials has dropped by approximately 30%. Given the current energy crisis in Ukraine, prices for locally produced products have increased drastically. Most domestic materials are low quality and outdated, presenting opportunities for western quality products.

The Ukrainian market for building materials offers sound opportunities for exporters, and especially for investors. The renovation and construction of Western-standard apartments, offices, and supermarkets remains a lucrative business in Ukraine. Some western consultants rank the Ukrainian construction market among the top four in all Europe in short-term market potential, and in the top two in long-term potential.

Although there are no official statistics on the Ukrainian market for building materials, the contractor market (residential and non-residential construction for Ukraine) can be estimated at \$4,600 million in sales a year, and the market for renovation of residential property is estimated at \$610 million in sales a year. Industry specialists are forecasting that domestic production will increase by approximately 10% due to the increase in joint manufacturing of building materials in Ukraine.

The market for building materials is becoming competitive: German, Italian, Scandinavian, French, and Spanish exporters are aggressively promoting their products in the Ukrainian market. Approximately 80% of the building materials used by contractors are of European origin. However, the system of distribution is still in the process of development. It consists of a collection of small, poorly organized stores with low inventories. Even leading distributors cannot serve as one-stop shops, and consumers spend much time searching for quality products at competitive prices.

(Market Size Data is not available for this sector.)

5. Computers & Peripherals (CPT)

The Ukrainian computer market is the first and perhaps the only industrial sector which has developed on primarily free market principles and remains one of the most dynamic sectors in Ukraine. Despite the general downturn of the Ukrainian economy, computer production and trade offer strong prospects for U.S. exporters. Only 10-15% of the overall potential computer market has been tapped. The national computer and software market was expected to increase by 20 percent in 1998, with sales of approximately 160,000 computers (second hand PCs not included), compared with approximately 130,000 computers sold in 1997. However, the market was severely affected by the economic crisis, and actual sales of computers and software matched 1997 performance levels. As opposed to state agencies and large enterprises, whose purchasing potential has been severely affected by macroeconomic hardships, small and medium businesses continue improving their computer equipment. Demand in 2000-2001 should grow as state agencies and enterprises seek to upgrade their PCs, numbering more than 350,000 pieces. The main problem is the lack of financing, which is not likely to change until at least the year 2001.

The Pentium processor (133, 166 MHz) is most popular, with full peripheral

complements assembled in Ukraine, the United States, or Western Europe. Major U.S. computer manufacturers have strong brand-name recognition, but pricing is usually the key consideration for the Ukrainian purchaser. Approximately 20-25 percent of the computer market belongs to brand names; 30 percent of the market is dominated by 5-7 major local manufacturers, and about 40-50 percent of total PCs sold in Ukraine are either imported by small local companies or manufactured from imported and local components. The above figures do not include products generated by a "shadow" economy, which reportedly controls up to 30 percent of the market. Major local companies sell between 10,000 to 20,000 PCs annually. Apple, Compaq, DEC, Dell, Hewlett Packard (HP), IBM, Intel, Microsoft and ECGData are among the numerous U.S. computer companies active in the Ukrainian market. Local assembly of PCs from imported components is thriving. Of the nearly 700 companies involved with PCs and active in the market, approximately 66 of them are engaged in local assembly or manufacturing of PCs. Although increasing, home use of PCs is still very limited. U.S. companies can maximize their export potential by tapping into an increasingly sophisticated network of agents and distributors throughout Ukraine who are able to reach a wide range of clients. Real opportunities in telecommunications and transport networks exist in the regional and city administration level.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	N/A	130	130
B. Total Local Production	N/A	30	50
C. Total Exports	N/A	-0-	-0-
D. Total Imports	N/A	100	80
E. Imports from the U.S.	N/A	30	30

(The above statistics are unofficial estimates.)

6. Computer Software & Services (CSF)

Ukraine's expanding private sector will require various software solutions and packages. However, the poor enforcement of intellectual property rights in Ukraine is a factor to be noted by U.S. companies interested in entering the market. Microsoft's MS-DOS and Windows programs are currently the most widely used word processing and spreadsheet software packages in Ukraine. This software is installed on approximately 98% of all PCs operating in the country. However, many software packages and applications are developed locally. The presence of many talented programmers, combined with weak International Property Rights (IPR) legislation and enforcement, have encouraged piracy and flagrant misuse of software. It is estimated that illegal software may comprise 10-40% of the software used by the government, 10-30% used by corporate customers, and 50-100% used by small and medium businesses. Foreign software dominates the market for legitimate software for corporate customers reaching 95%, while the share of local products doesn't exceed 5%. A more legitimate and transparent market for computer software is slowly taking shape, which is largely attributable to dealers selling computer hardware with preinstalled, legally acquired software. In April 1999, the government of Ukraine made a major step to legalize the software market by allocating \$13.8 to replace pirated software with legal Microsoft products on 54,000 governmental PCs.

Ukraine has witnessed an increasing demand for specialized financial, statistical, management, and manufacturing software, presenting major opportunities for U.S. companies. For maximum market exposure and penetration, U.S. companies are advised to develop bilingual (Ukrainian/Russian and English) software, as well as to provide the necessary bilingual written instructions and after-sales service. The existing legal environment in Ukraine does not include many important norms that would regulate the localization of software products. Legitimate localization of foreign software products is almost non-existent, which is partially due to competition from products localized in Russia.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	22.5	22.0	35.8
B. Total Local Production	1.0	1.0	1.0
C. Total Exports	0	0	0
D. Total Imports	21.5	21.0	34.8
E. Imports from the U.S.	N/A	N/A	N/A

(The above statistics are unofficial estimates.)

7. Drugs & Pharmaceuticals (DRG)

Local pharmaceutical production can satisfy only around 30% of demand, and along with the widespread growth of private distribution networks, this offers a considerable incentive for U.S. companies. Firms should note that the Ukrainian government is unable to purchase large volumes of expensive drugs; cheap generic drugs are more realistic for a predominantly state-run health sector. Large Western pharmaceutical companies are focusing their attention on private regional distributors who enjoy financial support from local companies and maintain strong ties with local health care authorities and facilities.

American companies are also advised that burdensome certification and registration procedures present significant, but potentially manageable, obstacles in this underdeveloped market. U.S. firms will also need to develop a strong public awareness campaign to educate Ukrainian consumers, given their minimal exposure to advanced medicines. Strong sales support should also be available to address these issues.

Market Size Data in (in \$ Millions)

	1997	1998	1999
A. Total Market Size	450	600	N/A
B. Total Local Production	200	250	N/A
C. Total Exports	50	70	N/A
D. Total Imports	250	350	N/A
E. Imports from the U.S.	4	7	N/A

(The above statistics are unofficial estimates.)

8. Electrical Power Systems (ELP)

Following the overall economic reforms initiated in 1994, Ukraine has sought to restructure and commercialize its outdated and tightly state-controlled power generation systems. While the vast electrical power sector will require sweeping reform and billions of dollars in investment, major opportunities (largely dependent on financing from international financial institutions) lay ahead for U.S. companies. U.S. firms can tap existing consulting and procurement projects offered by the U.S. Agency for International Development, the World Bank, and the European Bank for Reconstruction and Development, which are assisting the Ukrainian government with reforms and the creation of an independent energy sector.

According to Ukrainian legislation, thermal power generation companies and regional power distribution companies must be privatized. Ukraine's thermal power plants are old, their equipment is antiquated, their technology is obsolete, and they lack modern pollution control equipment. New hydropower utilities, that will reduce dependence on imported energy resources, are in the process of being built. Ukraine's nuclear power plants (NPP) also have to be upgraded. Three NPP units are currently under construction: on Khmelnytsky NPP, Rivne NPP and South Ukraine NPP (currently suspended due to lack of funding.) Two more units on Khmelnytsky NPP are planned to be built.

The centralized municipal heating systems, which are in use in most Ukrainian cities, are worn out and unreliable. They need rehabilitation and technical upgrading. There is increasing demand for autonomous heating systems for private cottages, and for the basement/roof based boiler houses for multi-story buildings.

Export opportunities for U.S. companies include:

- electric motors for feeder pumps, portal cranes, and conveyor belts;
- accumulator batteries, assorted bearings, circuit breakers, disconnectors;
- current and voltage transformers, support insulators, generating sets;
- low and medium-capacity boilers and auxiliaries, tubular stacks for boilers, boiler pipes, steam ejectors, assorted valves, superheaters;
- fans and spare parts for them;
- pump meters, nickel-steel tubing;
- steam and gas turbines and auxiliaries.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	220	230	250
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	N/A	N/A	N/A
D. Total Imports	N/A	N/A	N/A
E. Imports from the U.S.	154	170	190

(The above statistics are unofficial estimates.)

9. Energy Efficiency (EE)

Energy efficiency was an oxymoron in the former Soviet economy, where energy was cheap and plentiful. The breakup of the USSR, however, quickly forced Ukrainian industries and citizens alike to cut energy use, given the quick

transition to world prices for Russian and Kazakh oil, and for Russian and Turkmen gas. The Ukrainian government has pushed to establish a true market for energy and remove extensive state subsidies, resulting in a more than 1,000% increase in electricity costs between 1994-98. Gas prices have also skyrocketed, increasing over 1,000% from 1994-98, prompting many Ukrainians to install gas meters to accurately record use.

There are many areas for energy saving equipment and technology implementation. Due to poor control over the use of fuel and energy resources, Ukraine's energy efficiency is still two to three times lower than that in developed countries. The country ranks sixth in the world in gas consumption, and third in gas import after the United States and Germany. Approximately, 30% of the hot water supplied to houses and public buildings is used inefficiently or simply wasted. Almost 40% of the total heating energy generated is lost in transport from generator to consumer.

In the short-to-medium term, U.S. companies should explore commercial opportunities in energy efficiency demonstration projects (targeted at both residential and industrial consumers); district heating/hot water supply projects to curb waste and shorten the prolonged outages of heat/hot water (which are common in Ukraine); and urban and apartment block lighting projects to save electricity and brighten Ukraine's streets. Longer-term projects will emphasize controlling the profligate waste of energy by Ukrainian industries - a step that is closely tied to privatization and to putting heavy industry on a market footing. Several energy efficiency projects with U.S. company involvement are already underway. The majority of projects focus on control systems, gas meters, energy-efficient technologies, and monitoring devices to measure and regulate electricity use.

Best prospects for U.S. companies include: efficient gas turbines; hydraulic turbines; central heating boilers and advanced boiler technologies; energy conservation technologies in the heat-exchange systems and furnaces; modern digital control systems; gas and heat metering systems for industrial, domestic and commercial use; monitoring devices to measure and regulate electricity use; rehabilitation and replacement of compressors for transmission systems; efficient drilling machinery; coal quality control equipment; energy-efficient technologies; consulting services in energy conservation, energy audit, etc.

(Market size data is not available for this sector.)

10. Food Processing & Packaging Equipment (FPP)

The food processing and packaging equipment (FPP) sector offers good prospects for U.S. exports and long-term investment. FPP operations in Ukraine are primitive and outdated, with some canning operations dating back to the 1950s. As a result, the variety and quality of processed foods is very poor. Packaging materials are limited and packaging itself is barely functional. With upgraded processing and packaging technology, Ukraine can conceivably become an important exporter of processed food to the former Soviet republics, Central Europe, and the Black Sea basin.

The FPP market will likely expand rapidly in the next several years, especially in the following areas: (a) equipment for higher value-added

processing or secondary processing; (b) energy-efficient equipment; (c) small-capacity production equipment (especially for large agribusinesses that have split into small- and medium-sized companies); and (d) packaging equipment that ensures a longer shelf life and proper hygienic conditions for processed products. The best sales prospects for FPP (including used or refurbished equipment) are: dairy equipment, baby food production equipment, pasta and bread-making equipment, equipment for breweries, equipment for producing and bottling soft drinks and juices, fruit and vegetable processing equipment, vegetable oil (especially sunflower) extraction and refining equipment, and equipment for candy production and packaging.

The number of joint ventures or fully-owned food processing enterprises in Ukraine is currently small, but growing. Western Foods/C.I.L. Limited, a Ukrainian-American joint venture, is working with a Khmelnytskyi-based enterprise to process and package high-quality beef and pork for sale on the Russian and Ukrainian markets. This JV, an example of a successful joint venture in this subsector, uses U.S. meat processing and packaging equipment such as Multivac. Kraft General Foods purchased a candy factory in Trostynanets (Sumy oblast) and is currently producing chocolate products which are in high demand.

U.S. agribusiness firms such as Cargill have shown interest in Ukrainian sunflower oil production. The Dnipropetrovsk Oil Extraction Factory, with investment from Swiss Ilta-Holdings, received a loan from EBRD to upgrade its production facilities. In mid-1997, McDonald's began opening the first of the many restaurants the company plans to establish throughout Ukraine, a further sign of the tremendous potential for this Ukrainian sector. As of summer 1999, twenty one restaurants were open - nine in Kyiv, three in Kharkiv, three in Dnipropetrovsk, three in Odesa, one in Donetsk, one in Chernihiv, and one in Cherkasy.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	50.0	58.0	61.0
B. Total Local Production	35.0	30.0	30.0
C. Total Exports	5.0	3.0	3.1
D. Total Imports	10.0	15.0	16.5
E. Imports from the U.S.	4.6	4.0	4.2

(The above statistics are unofficial estimates.)

11. Medical Equipment (MED)

In the past, most Ukrainian medical equipment manufacturers were part of the Soviet defense industry structure and neither the Ministry of Health nor any statistical agency could provide accurate figures on domestic production. Following Ukraine's independence in 1991, some medical equipment manufacturers were placed under the authority of the Ministry for the Military-Industrial Complex and Conversion and many others became state corporations or enterprises leased from the state.

The majority of the Ukrainian health care system is still state-owned, and is financed from the state budget. Equipment in use is typically obsolete and/or worn-out. Given the financial impoverishment of many health institutions, replacement of equipment is slow to come or non-existent. Long awaited health insurance reform is expected in the near future. The restructuring of the medical care system may be a very good target for technical assistance funds, and such efforts may eventually help to develop a real market for medical supplies. U.S. companies are advised to concentrate business development efforts in the emerging Ukrainian private sector.

The Ukrainian government would like to create a self-sustaining Ukrainian medical industry, but this would require billions of dollars in investment. Domestically produced medical equipment is not competitive on a global scale. However, the large know-how and technological potential of the military-industrial complex could be channeled into the manufacturing of quality medical equipment.

Ukraine has encouraged the combined efforts of imports and heightened local production, especially through joint ventures, to meet the country's needs. There are more than 215 major medical equipment manufacturers in Ukraine producing over 1,300 different types of equipment, including diagnostic systems, ultrasound scanners, spectrometers, radiothermascopes, and EKGs. The technological components of the equipment produced locally are sound, but assistance is required in design, packaging, and international marketing.

Dealers of medical equipment are prime contacts for U.S. businesses entering the Ukrainian market as they have extensive distribution networks. Major purchasers of medical equipment are regional and "vidomichi" (departmental) hospitals, the latter being owned by various ministries and enterprises. The most promising direct exports are: electro-medical equipment, dental equipment, laboratory equipment, laser surgery devices, sterilization devices, diagnostic systems and disposable items.

The market potential for electro-medical equipment in Ukraine is high. Dental care providers' demand for dental equipment (i.e., dental stations (in particular, mobile), hard-alloy dental drills, instrument sets for therapeutic and orthopedic dentistry, instruments for endodentistry, disposable dental instruments, scalers, dental restorative and adhesive materials) is increasing. Opportunities also exist for laboratory equipment (i.e., centrifuges, ultracentrifuges, spectrophotometers, nuclear counters, and blood grouping systems).

The Ukrainian market is receptive to high-quality, advanced diagnostic and therapeutic equipment. Innovative technologies such as laser-optics in vascular surgery, urology, gastroenterology, dermatology and neuro-surgery, and new diagnostic devices are becoming more popular. Modern equipment offering ease of use and cost savings is required in the fields of microsurgery, radiology and biomedicine.

Most buyers are still not familiar with U.S. medical equipment and sometimes question its operational life span and support infrastructure in the difficult conditions of Ukraine. Furthermore, the narrowing price gap between new locally produced equipment and used Western equipment has made used equipment less attractive. However, a potential market for used medical equipment does

exist, with the best approach possibly being the creation of a joint venture for imports.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	170	185	N/A
B. Total Local Production	150	170	N/A
C. Total Exports	60	70	N/A
D. Total Imports	80	85	N/A
E. Imports from the U.S.	6	8	N/A

(The above statistics are unofficial estimates.)

12. Oil and Gas Field Machinery (OGM)

In Soviet times, Ukraine had an abundance of subsidized oil and gas from Russia. Today, Ukraine's petroleum industry is in a state of decay - broke and unable to sustain itself. Technology and equipment is years behind that in the United States. Ukraine does not have pumping equipment capable of producing below 6,000 feet, even though many of the fields are at depths of 10,000 to 15,000 feet. Stimulation technologies such as hydraulic fracturing and acid stimulation are not available. Three-D seismic has not been used on-shore, and drilling equipment is antiquated and limited to 15,000 ft. It takes three to five years to drill a well to 15,000 feet, and there is no domestic manufacturing of equipment for drilling deeper than this. Major reserves, developed and underdeveloped, are below 15,000 feet and impossible to exploit without outside financing and modern equipment. There is very limited domestic production of drilling machinery; it has been mostly imported from Russia and Romania.

Ukraine has the second largest potential refinery capacity in the Newly Independent States (NIS), with a capacity potential of 53.6 million tons per year at six refineries. However, capacity utilization is very low. About 60% of petroleum products consumed in Ukraine are imported. Most of Ukraine's refineries date from before World War II, and are therefore unsophisticated, with little modern technological capacity to process crude oil into valuable light products such as gasoline, diesel fuel, aviation fuel, kerosene, and liquefied petroleum gas. Refined products yield (the ratio of light products to the total refined) in Ukrainian refineries constitutes only 57 percent in average, versus a desired target 75 percent.

The Ukrainian government has made the development of the oil and gas sectors one of its top priorities. There are several planned projects that may offer potential purchases of U.S.-made equipment and services: Ukrainian refineries modification; exploration of the Azov-Black Sea shelves (upon adoption of the Law on Production Sharing Agreements); construction of the \$216 million Pivdenny (Odesa) Oil Terminal; construction of the Pivdenny-Brody pipeline which would be part of the Eurasian Oil Transport Corridor, a transit route for Caspian oil to reach Central Europe; and the rehabilitation of the 35,000 kilometers gas pipeline that delivers nearly 35% of Western Europe's natural gas.

The best prospects for U.S. companies include: pipeline construction equipment (compressors and pumps for pipeline applications; gas transmission systems;

gas pipeline leaks control systems; gas pipe fittings and applications; welding machines, cranes, pipe-cleaning equipment, and line trend machines); advanced and highly efficient oil and gas exploration and drilling equipment and technologies (pontoons supported on columns, hoisting cranes, drilling rigs, bits, electric motors, winch rollers, rotary tables, sheds, hoisting blocks, monkey boards, crown blocks, gin holes, shackles, cutting, roller and diamond bits, casing sleeves, chemicals, stimulation technologies, modern 3-D seismic, particularly for offshore projects where Ukrainian technology is very limited); equipment for atmospheric-vacuum oil refining; modernization increasing hydro-cracking and catalytic cracking capacities; units for catalytic transformation of distillates; industrial automation, control and monitoring systems for refineries, gas processing and petrochemical plants; desulfurization and quality control facilities; safety systems; fuel dispensers, fuel storage tanks, fuel level monitoring and accounting systems.

Market Size Data (in \$ Millions)

	1997	1998	1999
A. Total Market Size	110.0	107.0	105.0
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	N/A	N/A	N/A
D. Total Imports	47.0	44.0	42.0
E. Imports from the U.S.	30.0	26.0	24.0

(The above statistics are unofficial estimates.)

13. Pollution Control Equipment (POL)

The Ukrainian government has placed a high priority on the need to address the critical state of the environment. In June 1991, a basic environmental legislation - the Law on the Protection of the Environment - was adopted. During the last several years, a number of environmental laws and regulations were adopted in Ukraine in order to consolidate internal and external resources for resolving environmental problems. Unfortunately, most of these documents are merely declaratory, and lack the proper enforcement mechanisms. In addition, due to the lack of sufficient funds, most existing projects targeted to improve the environmental situation in the country have been precluded. Ukraine lacks a serious national ecological treatment program. Without centralized planning and procurement, local enterprises have resorted to informal trading to acquire the equipment they need. Few enterprises can afford the installation of air and water control systems.

Although significant, the pollution control equipment market in Ukraine can't be calculated using traditional methods. Market size analysis is complicated by the overall economic crisis in the country and the difficulty in obtaining exact statistical data from Ukrainian institutions. Virtually all municipal water and air treatment facilities and industrial pre-treatment systems are in need of reconstruction and installation of new pollution control systems. The Ukrainian industry for water control and treatment equipment is in the process of development. During 1997-1999 a number of joint ventures and domestic enterprises launched their activity to produce local water purification equipment and units. The market for home water purification units and independent water supply systems is flooded with products of U.S. and German origin. The domestic industry of air and soil remediation and control

equipment is in an embryonic stage, and the market is open for this kind of equipment.

During 1998-1999, the legislative base of the waste recycling industry in Ukraine underwent a number of changes. By a Decree of the Cabinet of Ministers, the State Company Ukrtarapererobka was established to facilitate and coordinate a national program on waste recycling in Ukraine. Ukrtarapererobka plans on holding tenders for international and domestic providers of technologies and exporters of equipment for participation in waste recycling projects in Ukraine.

(Market size data is not available for this sector.)

14. Security & Safety Equipment (SEC)

American-made security and safety equipment is one of the most promising industrial sectors for export to Ukraine. Rising crime, weak law enforcement, and the emergence of a strong business mafia have compelled many Ukrainian citizens to take matters into their own hands. While existing legislation restricts the purchase and use of firearms by the average citizen, many citizens rely upon a variety of security devices and alarms for their homes and cars; such items include car alarms, house alarms, advanced technology locks, and closed-circuit TV. The rapid growth of private banks has been accompanied by an increased demand for safety deposit boxes, safes, metal detectors, pagers, smoke detectors, and sophisticated turn-key security and access control systems. Ukrainian companies are often willing to pay top dollar for an effective security package, as seen by the proliferation of Ukrainian security companies. Domestic manufacturers are unable to meet demand, both in terms of quantity and quality desired. U.S. companies are advised to use trade exhibition opportunities to make valuable contacts and to directly contact private Ukrainian security firms. U.S. firms should also note that the import of security and safety equipment requires certification from the Ukrainian Ministry of Internal Affairs, which is often a cumbersome process.

(Market size data is not available for this sector.)

15. Telecommunications (TEL)

Telecommunications in Ukraine expanded tremendously over the past few years. As a result of developments in both wired and wireless communications, Ukraine now possesses the potential to engage in sophisticated telecommunications in line with European standards.

Ukraine's wireline networks, however, remain far from optimal. First, fees for new line installation can reach \$1000, and may require long waiting periods. Secondly, although an increasing amount of digital equipment is in place, many regional switches continue to connect customers using outdated equipment. Therefore, the quality of connection cannot be guaranteed. Almost all local loops remain analog with obsolete and worn-out equipment, which prohibits the introduction of new billing systems. Users pay a symbolic fee of \$2-3 per month. Only in large cities has a new billing system based on per minute billing been introduced. Almost all local loops are unprofitable. Two companies dominate the national and long-distance wireline networks:

Ukrtelecom and Utel, respectively. Ukrtelecom subsidizes local loops with revenues received from unrealistically high rates for international calls, line installation, and registration.

In small towns and villages, the situation is even worse. At times there is only one line in a village of several thousand people; the wait for a line can range between 7-11 years. In addition, the number of phone lines varies throughout the regions. Kyiv has the highest density (43 percent), followed by the industrial regions in the east (19 percent). Lines are scarce in the western agricultural regions of Transcarpathia and Carpathia.

Ukraine's hesitation to liberalize its telecommunications industry gave Ukrtelecom a substantial degree of clout in both the political and business communities. Privatization of Ukrtelecom, which was repeatedly proposed by the Ukrainian Government in 1997 and 1998, has so far been delayed by fierce opposition by different political forces in the National Parliament. This privatization, when it happens, will certainly reshuffle the structure of the telecommunications market in Ukraine.

Nine independent cellular networks are being built or expanded using NMT-4, GSM-900, DCS1800, DAMPS, CDMA and TDMA standards. Ukraine has joined the Global Star and Iridium satellite networks. All of the above projects are designed to eventually provide countrywide coverage. Specialists agree that there will be tremendous growth in Ukraine's telecommunications sector, particularly in satellite, cellular, and fiber optics. Several national projects are anticipated to upgrade administrative and finance infrastructures, including the development of a nationwide credit payment system. Because of the excellent reputation of American-made telecommunications equipment, U.S. firms can position themselves to meet the demand for equipment in satellite, mobile communications, and electronic data transmission and processing.

Conversion of certain frequencies, formerly restricted to the military, law enforcement, and air-traffic control authorities, has been opened up to the private sector. This facilitates a market for more paging, cellular, and mobile equipment. With the Ukrainian government planning for massive development in the telecommunications sector (including total conversion to a digital system and expansion in rural areas), opportunities will be available for U.S. telecom companies.

The Ukrainian telecommunications industry desperately needs financing. To upgrade the national communications network to world standards, the industry would require around \$10 billion in investments. At this point, the industry generates enough funds to reinvest no more than \$200 million annually, but even these funds are diverted to more urgent government needs. Unfortunately, so far Ukraine has failed to create an attractive environment for potential strategic investors in its telecommunications industry.

Mobile Communications:

Mobile Communications (MC) has been the main focus of foreign investors in the Ukrainian telecommunications sector. None of the MC service providers in Ukraine are 100-percent Ukrainian; each MC provider has a foreign partner which contributes to the joint venture's financial capital, technology, equipment, and know-how. The peculiarity of the local MC market is that

typically most operators have one manufacturer relationship (Ericsson, Motorola, Qualcomm, Hughes), which either provides an open equipment credit line or is a shareholder of the operating firm. Small local operators are still short of funding and are dependent upon equipment credit lines, which do not allow freedom of choice as far as equipment and technology are concerned. Since September 1997, five operators and six networks of cellular communication (standards NMT-450, DCS1800, D-AMPS, GSM900) have been operating in Ukraine. The number of cellular communication subscribers in Ukraine is close to 170,000.

Fierce competition between MC operators led to a substantial decrease in tariffs and differentiation of payment and service packages offered by operators.

The major technical problem facing operators of GSM900 networks in Ukraine is sharing 900 MHz frequencies with 64 Ukrainian airports that use this spectrum for navigation and commercial use. The spectrum available for commercial use varies throughout Ukraine. The range of available frequencies is expanding step by step as frequencies are being converted towards commercial use.

MC operators cannot function independently of Ukrtelecom (the Ukrainian state-owned telephone company), which requires a limited share in each company. Without Ukrtelecom's cooperation, an MC operator would not have access to fixed line networks and public switches.

There are too many MC operators for the small market that currently exists in Ukraine. However, at least two more companies, International Telecommunications Company and Astelit, plan to become MC operators in the near future.

Currently, the best mobile communications prospects are: Ukrainian government agencies, the Administration of the President, regional (oblast) and district (rayon) administrations, the National Tax Inspectorate, the Ministry of Interior, major metallurgical and pharmaceutical enterprises, and the national railroads.

16. Travel and Tourism (TRV)

Most of Ukraine's tourism facilities are worn out, and Ukraine may be viewed as a promising market for those companies involved in development of the tourism infrastructure. U.S. companies that specialize in hotel and resort development, theme park development, winter sports facilities, tour development, concept design, convention business, alternative tourism, construction and redevelopment of airports, marina development, information technologies and advertisement have the best opportunity to participate in the upgrade and expansion of Ukraine's tourism infrastructure. Despite an overall economic slump, tourism has become one of the key drivers of the Ukrainian economy, generating \$3.8 billion or 8.6% of the nation's GDP in 1998. It also one of the fastest growing industries. There are three absolute tourism centers in Ukraine, attracting almost 90 percent of tourists: Kyiv, Crimea and the Black Sea coast near Odesa, and the Carpathian region (including L'viv, Ivano-Frankivsk, and Chernivtsi).

After eight years of independence, Ukraine still does not have a single international hotel. Of those projects in the pipeline, only Radisson SAS and Hilton may be realistic to launch operation in Kyiv by 2001. The key obstacle for hotel development is the land ownership issue: Ukrainian law prohibits private ownership of land, therefore, all existing hotel projects shall be carried out on a land lease term for 49 or 99 years. The Kyiv City Administration has recently announced its plans to attract investors for extensive hotel refurbishment and new projects.

Seaside tourism, with centers in Crimea and Odesa, faces a relatively short season and faces stiff competition from other destinations. This region was the number one center of recreational tourism in the former Soviet Union, and is therefore flooded with outdated resorts and sanatoriums formerly managed by trade unions. Crimea offers ideal climatic conditions, many curative mineral waters, peat and mud. In order to extend the tourism season in Crimea, local private companies and municipalities have developed attractive investment projects involving construction of winter sports facilities, hiking, marina development, entertainment centers, cruising and golfing. Crimea also has a plethora of historic sites connected with the Ancient Greek and Ottoman periods. In 1999, the Ukrainian Parliament granted VAT exemption for tourism companies in Crimea. In addition, a Presidential Decree gave Yalta, Alushta, Sudak, Feodosiya and other resort towns the status of territories of priority development, thereby granting substantial incentives for investors and tourism project developers in these areas.

The Carpathian region provides a unique combination of mountains, clean air, curative spas, historic sites and ethnic culture. This is where most travelers from the United States, Canada and Western Europe tend to come. Development of resort hotels, ski facilities, spas, hiking grounds, and convention centers may provide excellent opportunities for investors. There is the prospect of combination tours to cover Poland, the Slovak Republic, Hungary and western Ukraine. L'viv, included in the UNESCO list of historic treasures, may be especially interesting for construction and design companies.

National and regional transportation infrastructures are inadequate and act as the main obstacle to the development of the tourism sector. Particularly noticeable is the low quality of airline service and poor road conditions across the country. The State Tourism Committee is trying to encourage foreign companies to get involved in the development of a ground travel infrastructure, including motels, restaurants, service stations, as well as information programs. Currently, the Ministry of Transportation is looking for investors to implement several airport redevelopment projects in L'viv, Ivano-Frankivsk, Simferopol, Kharkiv, Odesa, and Kyiv Zhuliany.

Another impediment to the development of tourism is very poor marketing by the Ukrainian travel sector. Foreign individual travelers and travel companies complain about the excessive cost of a Ukrainian visa (\$75-165).

B. Best Prospects for Agricultural Products and Services

Domestic food and beverage prices in Ukraine remain significantly lower than those of imported goods. Imported foods and beverages are much more expensive for several reasons; duties up to 50%; a high value-added tax (VAT) on

imported goods; excise duties for alcoholic beverages, cigarettes, coffee, and chocolate; and high profit margins set by local sellers of imported products.

Despite such barriers, imported food products are in high demand. Approximately 30% of Ukrainian food expenditures are on imported products.

1. Alcoholic Beverages

Ukraine has 87 plants that are licensed to produce alcohol. They can process up to 900,000 tons of grain and 1.1 million tons of molasses per year, producing roughly 320 million liters and 300 million liters respectively. In addition, there are hundreds of other producers of spirits, liqueurs, wine, and cognac.

According to a 1998 Presidential Decree, the State Committee of Ukraine for Monopoly on the Production and Turnover of Ethyl Alcohol, Alcoholic Beverages, and Tobacco Products was established. This Committee is authorized to: (1) control production, export, import, transportation and sale of the above-mentioned goods; (2) issue relevant licenses; (3) fine violators of legislation; and (4) submit proposals for introducing minimum prices for alcohol and tobacco.

According to "Ukrpyvo" (the Ukrainian beer trade association), the size of the beer market in Ukraine is estimated to be 100 million hectoliters (10 billion liters), while in 1997 domestic breweries produced just 61.1 million hectoliters (6.11 billion liters). Annual per capita beer consumption is 12 liters. Approximately 85% of the total beer supply is locally-produced. After the financial crisis in late 1998 and a sharp increase in the currency exchange rate, the share of imported beer decreased by 5-10%. The largest six breweries control 64.4% of the total domestic market: CJSC "Obolon" (20.3%), JSC "Brewery Rohan" (16.1%), JSC "Slavutych" (15.3%), CJSC "Donetsk Brewery" (14.9%), JSC "Chernihiv Brewery Desna" (13.6%) and JSC "Mykolaiv Brewery Yantar" (13.6%). The profitability of beer sales in these breweries is 20-40%. But industry specialists believe that the real profitability rate is much higher.

Current major investors include: INVESCO CEAM Investment Company (registered in Cyprus) working with breweries in Odesa and Mykolaiv; "Sun Group" British-Indian Investment Company provides financing for the "Krym" Brewery in Simferopol; BBH (Baltic Beverages Holding AB) works with "Slavutych" in Zaporizhzhya; Belgium "Interbrew" Investment Company works with "Desna" in Chernihiv.

Currently, there are no local manufacturers of brewery equipment. Ukrainian breweries primarily use equipment imported from Western Europe. U.S. companies would be well-advised to explore opportunities in Ukrainian breweries and micro-breweries, given the strong demand in adjacent CIS and Eastern European markets.

2. Poultry Products

Since 1994, U.S. poultry exports to Ukraine have experienced enormous growth. Local consumers prefer chicken leg quarters, which are competitively priced, easy to cook, and contain more fat than local poultry. Market niches exist

for other products, such as ground chicken and turkey, turkey leg quarters, and poultry sausage. Consumption of imported poultry is likely to grow, especially during colder seasons when it is easier to store these products. U.S. exporters should be certain that they secure in advance all the necessary documentation required by the Ukrainian government, particularly Veterinary Certificates. Competition exists primarily from the Netherlands, Germany, and other European countries.

Market size data (in thousands of metric tons)

	1997	1998	1999
A. Total Consumption	248.9	265.5	N/A
B. Total Production	192	214	N/A
C. Total Exports	N/A	N/A	N/A
D. Total Imports	56.9	51.5	N/A
E. Imports from the U.S.	48.6	37.2	N/A

(The above statistics are unofficial estimates.)

C. Significant Investment Opportunities

As enterprises within the machine building and high-technology defense sectors convert their production to commercial and consumer goods, opportunities exist for U.S. investment in the production of such items as: computer equipment, components, and peripherals; the creation of specialized software; building materials; the joint manufacturing of telecommunications equipment (primarily satellites and fiber optics); and the production of security and safety equipment. The following is an overview of key investment opportunities in the most promising sectors. Where appropriate, opportunities arising from bilateral foreign assistance or multilateral development bank-funded projects are discussed.

1. Electrical Power Systems (ELP)

Ukraine's seven power generating companies supply electricity to the national grid. Four thermal power generating companies, Dniproenergo, Donbasenergo, Zakhidenergo and Tsenterenergo, manage 14 large thermal power plants (TPPs). Two hydro power generating companies, Dniprohydroenergo and Dnisterhydroenergo, comprise a cascade of six hydro power plants (HPPs) and one hydroelectric pumping storage power station (HPSPS) located along the Dnipro River, and one HPP located on the Dnister River. Energoatom national nuclear power generation company manages five Ukrainian nuclear power plants (NPPs): Khmelnytsky, Zaporizhzhya, Chornobyl, Rivne and South Ukraine plants. Twenty-seven Ukrainian power distribution companies, seven of which are now privately controlled, receive electric power through the wholesale market ("Energomarket") at wholesale tariff from generating companies. The retail market for power energy consists of the direct consumers of power energy. Electricity is transported through the high-voltage central transmission networks, which belong to Ukrelectroperedacha power transmission company, then through local middle and low-voltage transmission lines, which belong to the regional distribution companies, and then to the consumers. The National Dispatch Center (NDC), which includes eight regional dispatch centers, controls the stability in the energy grid.

Ukrainian legislation provides that thermal power generation companies and regional power distribution companies must be privatized. Privatization of regional power distribution companies began in December 1997. As of mid-October 1998, out of the 18 competitions announced for sale of 20-36 % stakes in power distribution companies, only nine winners had been announced. The government lost controlling stakes in seven of the power companies, in which 66 to 72 % of shares were sold. Winners of the tenders also gained the right to manage state-owned shares in power companies. The stock distribution plans of the 27 power distribution companies provided that the state retains 25% of the authorized funds plus one share. Thus, according to the plan, upon completion of privatization of regional power distribution companies, seventy-five percent of the power companies would be privately held, with the state holding a minority interest. The stock distribution plans of four thermal power generating companies stipulate that the state would retain a 50% plus one share for five years; 25% would be sold on privileged terms, primarily to enterprise employees, the remaining 24% would be sold on a tender. Ukrainian power companies need investments for their technical upgrade, and thus need to be privatized by experts in management of electric power utilities, with straightforward investment programs. The newly appointed Minister of Energy Plachkov set as his first priority the continued privatization of the power sector.

The electric power sector offers possibilities for U.S. companies and investors to participate in the upgrading of thermal and hydropower plants, especially the improvement of control systems and the supply of gas meters and energy efficient technologies. Excluding Chornobyl, the estimated total investments envisaged for the power industry in both non-nuclear generation and nuclear generation equal \$3.88 billion in 1996-2000 and \$5.22 billion in 2001-2005. The Ministry of Energy's thermal rehabilitation project requires capital investments of about \$500 million per year (1996-2005). The estimated cost of the turbine replacement program for hydropower plants is \$45 million in 1996-2000 and \$28 million in 2001-2005. The completion of the Dnistrovska Pumping Storage Power Station is estimated at \$454 million.

There will be tenders for procurement of various categories of equipment and services within the Chornobyl Shelter Implementation Plan. The project/plan is financed by the Chornobyl Shelter Fund, which is administered by the EBRD. The total estimated cost of the procurements for this project will amount to \$40 million. Energoatom national nuclear power generation company will procure the following goods and services contracts, over the next nine months: computer hardware and software equipment, management support equipment, civil engineering, operations and monitoring, emergency systems, fuel containing material, radiation protection and monitoring equipment and services, and support facilities and utilities.

Procurement under the World Bank tender procedures is also taking place for a World Bank loan for the Dniprohydroenergo power generation company for the Dnipro Cascade Hydropower Rehabilitation and System Control Project. The total project cost is estimated at \$190 million; the World Bank provided a \$114 million loan, co-financing provided by the Swiss, Canadian and Norwegian governments. Project scope includes installation of new turbines and generators, assembly of the dam's safety control system, improvement of the communication system, dispatching service and management. Tenders have been

conducted since October 1998. As of April 20, 1999, the tender was expected for consulting services in dispatching.

The Darnytsia Power Plant Modernization Project is under consideration by the EBRD. Total estimated project cost is \$158 million. The project is supposed to be implemented by the Ukrainian-Canadian joint venture Ukr-Can Power, managing the Darnytsia Power Plant. The project proposal is to modernize the plant using efficient gas turbines, advanced boiler technology, up-to-date power generation installments, and proper control systems. The implementation of the new equipment and advanced technologies will allow cutting the plant's fuel consumption in half. It is expected that the project will begin in 1999 and will be completed by the end of 2001.

2. Energy Efficiency (EE)

A number of opportunities exist for investors to provide technical assistance, training, and energy efficient technologies. Immediate efforts to save energy are focused upon low-cost/no-cost programs in industry energy efficiency and heat and power boiler efficiency. Both are short-term, high-payback measures that involve energy audits, training in energy management practices and financial analysis, and provision of low-cost energy efficiency equipment. This short-term approach supports a transition from government to the private sector by introducing modern management practices in industries that are unable to mobilize capital for larger investments.

There are several measures that can be undertaken in the immediate term to provide a basis for substantial energy efficiency investments over the next 2-5 years. Project preparation opportunities for energy efficiency investments include: industry efficiency investments, district heating projects, transmission and distribution investments, generation and plant rehabilitation, and the construction of alternative fuel and energy facilities. In particular, the State Committee for Energy Conservation proposed to implement the following pilot projects:

- reconstruction of the heat network and boilers at the Boryspil Airport in Kyiv;
- reconstruction of town boilers and enhancement of the district heating efficiency in the cities of Kyiv, Sevastopol, Dnipropetrovsk, and L'viv;
- feasibility studies for production of turbine expansion gas energy engines on the basis of gas reduction stations;
- transferring of steam boilers that function in accordance with the pot-boiler method to the water heating method.

Potential financing for energy efficiency includes commercial banks, private sector third party financing, energy utilities, and multilateral lending and investment. The U.S. Trade & Development Agency could partially finance feasibility studies on the prospective energy efficiency projects.

On May 21, 1998, the World Bank approved a \$200 million loan to Ukraine for a Kyiv District Heating Improvement Project that will increase the efficiency of central heating in Kyiv. The loan agreement was ratified by the Ukrainian Parliament on March 23, 1999; international tenders are expected to begin in August 1999. The project will replace and increase heat production capacity to better meet existing and expected future demand for district heating, introduce modern technologies and materials to extend the life of the Kyiv

heating system, and also promote cost recovery policies and practices. A project providing \$30 million for upgrading the Sevastopol district's heating system is under consideration by the World Bank.

The State Committee for Energy Conservation plans improving energy efficiency in Kyiv public buildings: schools, hospitals, kindergartens, and public administration buildings. The project is supposed to modernize over 1600 buildings by installing meters for measuring heat energy consumption and other energy saving equipment. The World Bank is supposed to finance \$40 million for this project.

In May 1998, the State Committee for Energy Conservation coordinated the establishment of Ukraine's first energy service company (UkrESCO), which will identify and implement energy-saving investments in small and medium-sized enterprises (SMEs) and public sector institutions throughout Ukraine. In May 1998, the EBRD agreed to provide a sovereign loan of \$30 million for this project. In May 1999, the loan agreement was ratified by the Ukrainian Parliament. International tendering for energy conservation equipment and services began in June 1999 and is ongoing.

In December 1997, the EBRD signed a sovereign loan agreement for \$73.3 million with Ukrgas, a state-controlled corporation in charge for natural gas distribution, for a gas meters installation project. Total project cost is estimated at \$88.3 million. Ukrgas was supposed to acquire and install over one million gas meters in households, commercial and industrial facilities. The project consisted of installation of gas meters throughout the Dnipropetrovsk Region and was to contribute to improving the efficiency of gas use. In July 1998, Ukrgas was liquidated, and Naftogas of Ukraine state holding acquired its state-owned stake of shares. As of June 1999, the project is on hold; the EBRD is reviewing the terms of the loan agreement since the borrower has changed, and the project remains to be ratified by the Ukrainian Parliament.

3. Oil & Gas Services (OGM)

Soviet industrial policy of the 1970s chose to develop Siberian oil and gas deposits, resulting in an underdeveloped and almost forgotten oil and gas sector in Ukraine. Ukraine's current oil and gas production meets only 10-12% and 20-24% of domestic needs respectively. The domestic fuel producing industry is complex and consists of approximately 240 companies performing crude oil extraction and transportation, natural gas extraction and transportation, oil and gas refining, and petroleum products storage and distribution. Continual reliance on crude oil imports from Russia and Kazakhstan, and natural gas from Russia and Turkmenistan has forced Ukraine to reexamine both tapped and potential reserves located in eastern and western Ukraine, as well as in Crimea. The Ukrainian government has declared the development of this sector as one of its top priorities.

The national holding company "Naftogas of Ukraine", created in early 1998, secured state-owned stakes in major Ukrainian oil and gas extraction, transportation and storage companies - such giants as Ukrgasprom and Chornomornaftogas (gas exploration), Ukrgas (distribution of gas to end-users), Ukrnafta (crude oil exploration), major oil pipelines Prydniprovski and Druzhba, Azmol (oil refining). The main purpose of "Naftogas of Ukraine"

was to consolidate numerous state oil and gas holdings in order to facilitate reorganization of the industry. However, there were concerns that this could lead to further monopolization and strengthening of the state control over the companies. The sector, particularly oil and gas extraction and transportation, remain highly state-controlled. However, there are a number of joint ventures with foreign investments operating in oil and gas exploration and extraction. Some foreign companies have lease agreements for transportation and storage facilities, which are mostly state-owned. Privatization of Ukrainian oil refineries resulted in 32 to 75 percent of the refineries now being privately held. On March 31, 1999, the Russian oil companies Lukoil and Syntez Oil jointly won the privatization tender for the 51.9 percent share of stock in the Odesa Oil Refinery. The winner had to pay \$ 6.9 million for the share. Total investment obligations on the share of stock include the clearance of half of the Odesa Refinery's debt to the Ukrainian bank Ukrinbank (about \$ 19.1 million), disbursement of \$ 1.2 million for the rehabilitation and technical upgrade of the Odesa Refinery, and the annual supply of 2.4 million tons of crude oil over 5 years. The state retained ownership of a 25-percent share of stock in the Odesa Refinery, but is considering transferring its management to the Lukoil - Syntez Oil joint venture. Currently, Lukoil and Syntez Oil are the major foreign investors in the oil refining industry of Ukraine. The most advanced sub-sector in terms of privatization is that of ancillary industries, such as petroleum product storage and distribution.

Ukraine's carbon resources are estimated at the equivalent of 7-8 billion tons of fuel. There are three prolific areas in Ukraine located in the west (Carpathian region), in the east (Dnipro-Donetsk region), and in the south (the Black Sea and Crimean regions). There are 8,000 potentially profitable oil and gas fields in Ukraine, of which more than 300 have been developed with significant output. The total number of operational extraction wells exceeds 4,400 units. Ukraine has approximately 35,000 kilometers of gas pipelines. Input capacity of the gas transport system of Ukraine is 290 billion cubic meters annually. Annual output capacity (to the countries of western, central and eastern Europe as well as to Moldova and the south of Russian) is almost 170 billion cubic meters.

There are several areas for investment in the oil and gas sector. Investment requirements in natural gas exploration and extraction are estimated at \$160 million (1996-2000) and \$150 million (2001-2005). The needed upgrading and replacement of transmission system compressors requires \$250 million (1996--2000) and about \$100 million (2001-2005). The cost of increasing transmission capacity is estimated at \$500 million (1996-2000) and \$1.5 billion (2001-2005). Continued expansion of the domestic distribution system (according to Naftogas of Ukraine's plans) requires about \$470 million (1996-2000) and \$500 million (2001-2005).

Oil and gas extraction has potential for expansion using up-to-date Western technologies (deep drilling, 3-D seismic, well-logging, reservoir characterization, directional drilling, etc.) to locate new traps or untapped zones, or to rejuvenate older fields. Already discovered, high pressurized gas fields are largely beyond the capability of Ukrainians themselves to develop. Naftogas of Ukraine came up with investment projects for recovering old fields (Gutzulin gas field, Pylypiv and Dobleslav fields), and developing new oil and gas fields (Odesa shelf, Lokachiv gas field, Glino-Rozbyshiv and

Kokaniv oil fields). Total investments needed for these projects are estimated at \$ 250 million. The Azov-Black Sea shelf presents interesting investment possibilities in capacity expansion and hydrocarbon extraction. There is a state program on the Black Sea shelf development, which has been declared a priority by the President of Ukraine. Shell International Petroleum (Netherlands) and Pecten International (U.S.) won the first tender in July 1996 to prospect for and extract oil in the Black Sea shelf. Some American companies are interested in participating in the second bidding round upon implementation of the production sharing law. In June 1999, the Law on Production Sharing Agreements was accepted by the Parliament. Hopefully, it will be adopted later in 1999-2000; it should encourage foreign investment in the oil and gas sectors. (In early August, the President vetoed the law and returned it to Parliament.)

Naftogas of Ukraine has some investment projects in oil and gas transportation, including reconstruction of compressor stations in Dolyna and Lubny, and construction of the Kherson-Crimea and Dolyna-Uzhhorod gas pipelines. Total \$ 300 million in investments are required for these projects.

Investments relating to the modernization of existing refineries are expected to be commercially viable. Of six refineries, all except the Kremenchuk refinery have been partially privatized. If the domestic and foreign trade of crude oil and petroleum products completely liberalizes and prices for oil products are fully decontrolled, refineries should be able to attract both commercial loans and equity investors to finance required projects. The cost for modernizing four of the six existing refineries (Lysychansk, Kremenchuk, Odesa, and Drohobych) was estimated at \$4.5 billion. The government of Ukraine has been negotiating with the EBRD for a \$101 million loan to upgrade Ukraine's refineries.

Construction of the facilities which would be part of the Eurasian Oil Transportation Corridor began as a result of the necessity to fully meet the demand for crude oil and the desire to open a transit route to Europe for Caspian oil. The construction of an oil terminal at the Pivdennyi seaport near Odesa, and a 667 kilometer, 1020 millimeter diameter pipeline link between Odesa and Brody would make it possible to supply industrial cities in Ukraine and Europe with approximately 40 million tons of crude oil per year.

The Committee for Oil and Gas of Ukraine is coordinating the Pivdennyi Oil Terminal Construction Project - intended to improve the security and diversity of Ukraine's crude oil import supply, and worth a total of \$216 million. The project is co-sponsored by state enterprises responsible for the national pipeline network (the Prydniprovski Main Oil Pipeline Company and the Druzhba Oil Pipeline Company), and by Uknaftoterm state company. The project includes construction of a marine oil transferring complex 30 kilometers east of Odesa that will handle and store crude oil to be transported through Ukraine's pipelines for export. It will have an annual capacity of 12 million tons of oil after completion of the first phase of the project, and 40 million tons after completion of the second phase. It is anticipated that the first phase of the project will be completed by mid 2000; foreign investments are needed to complete the second phase.

In September 1998, the U.S. Trade & Development Agency provided partial funding of \$ 750,000 for a feasibility study of the Odesa-Brody pipeline construction project, with an expected total cost of \$ 470 million. The study is being carried out by the U.S. company Gulf Interstate Inc., and is scheduled to be completed by the end of July 1999. The pipeline would include two pumping stations along its route - in Fedorivka and Kotovsk. The new oil pipeline could transport oil to the southern branch of the Druzhba oil pipeline, which at present is operating below capacity by five-six million tons of oil a year, and would allow for the delivery of crude oil to refineries in Slovakia, the Czech Republic, Hungary, and after the construction of short connecting oil pipelines - to Austria (Schwechat Refinery), and Germany (Leuna Refinery). The extension of the Pivdenny-Brody oil pipeline to the Polish city of Plock would connect the system to the western branch of the Druzhba oil pipeline and allow delivery of Black Sea oil to new markets in Poland, Germany, and the Baltic Sea (through the port of Gdansk in Poland).

Meanwhile, the construction of the pipeline and Pivdenny terminal is proceeding slowly. According to Valeriy Shuliko, Deputy Head of the Committee for Oil & Gas, as of April 14, 1999, about 56 percent of the Odesa-Brody pipeline and about 20 percent of the Pivdenny oil terminal have already been constructed using Ukrainian investments.

The Ministry of Coal Industry has been negotiating with the World Bank for financing the Coal Mining Improvement and Coal Bed Methane Recovery Project, which would include improvement of mine safety, improvement of coal quality, environmental and occupational health improvements, technical assistance and training. Total project cost is estimated at \$ 150 million, of which the World Bank is expected to provide \$ 100 million. Project preparation is under way; consulting services are to be determined.

The Ukrainian government has also been negotiating with the World Bank for financing the project for the rehabilitation of Ukraine's natural gas transit network, which carries some 35% of Western Europe's natural gas supplies. This \$477 million project would improve network reliability and provide for compressor stations and pipelines for four major export routes.

4. Telecommunications (TEL)

Privatization of Ukrtelecom remains a major potential investment opportunity in Ukraine, as it has been for more than a year and a half.

Ukrtelecom was created in 1993, when the Ukrainian Ministry of Communications reorganized the national telecommunications structure by merging several telecom departments and regional PTTs into the Ukrainian State Telecommunications Corporation (Ukrtelecom). Owning all transmission facilities, Ukrtelecom administers the national wire line infrastructure. The company employs more than 130,000 people. Ukrtelecom's net profits totaled \$ 100 million in 1995, grew to \$ 130 million in 1996 and \$220 million in 1997. Estimates for 1998 were thought to be around \$ 500 million net profit, but devaluation of the national currency reportedly brought gross revenues to \$ 714.4 million and net profits down to \$ 140.6 million.

Ukrtelecom's special attractiveness is also due to the fact that the Ukrainian Law on Communications established a provision under which the foreign share in a company that provides telecom services in Ukraine cannot exceed 49 percent. For this reason, in addition to the actual monopoly on the local loop, Ukrtelecom usually either gets a share in any private or public telecom company operating in Ukraine, or signs a memorandum of cooperation with the operating firm. Therefore, control over Ukrtelecom means control over the national telecommunications market.

The Ukrainian telecommunications industry desperately needs financing. To upgrade the national communications network to world standards, the industry requires around \$10 billion in investment. The only way to obtain these substantial investments is through privatizing Ukrtelecom. Ukraine's hesitation to liberalize its telecommunications industry gave Ukrtelecom a substantial degree of clout in both the political and business communities. Privatization of Ukrtelecom, which was repeatedly proposed by the Ukrainian government in 1997 and 1998, has so far been delayed by fierce opposition by different political forces in the National Parliament.

Reportedly, at least four draft laws on privatization of Ukrtelecom have been submitted to the Parliament. Although Ukrtelecom's audit by PricewaterhouseCoopers is expected to be completed in mid July, Ukrainian government officials already announced their plans to sell 25% of Ukrtelecom shares for \$0.7-1 billion and delegate the management of the company to the strategic investor in question.

It is expected that because of the aggravated economic situation, telecom privatization will be at the top of the agenda immediately following the presidential elections. The privatization of the Ukrainian telecommunications industry will be a long and painful process. It is very likely that industry interests will be viewed as being of minor importance. However, this privatization, when it happens, will certainly reshuffle the structure of the telecommunications market in Ukraine.

Chapter VI: Trade Regulations and Standards

A. Taxation

The Ukrainian tax system has evolved continually since Ukraine's independence in 1991; however, it still remains far from coherent. In the words of one foreign businessman, "labor is very cheap here, but taxes remain very high. What costs a few cents becomes more than a few dollars after taxes. We pay some 16 different taxes."

The number of taxes in Ukraine decreased during the government of Ukraine's 1997 taxation reform and this trend continued in 1998. During summer 1998, President Kuchma issued several tax reform decrees. The reform measures included the introduction of a single uniform tax for small businesses, and a single uniform agricultural tax based on the value of the land; writing off and restructuring of VAT debts for agricultural producers; and reduction of the payroll tax to 37.5% beginning January 1, 1999.

The most significant taxes are: a 20% value-added tax (VAT); a 30% corporate

profit tax; a personal income tax based on an employee's income (ranging from 20-40% for most employees of foreign companies operating in Ukraine); and payroll taxes paid by the employers to the Social Insurance Fund, Pension Fund, and Employment Fund (total contributions to these funds amount to 37.5% of wages, borne by the employer).

The State Tax Administration, responsible for the overall implementation of tax laws, was granted broader authority in 1997, becoming accountable directly to the president and incorporating the Ukrainian Tax Police.

The 1997 law "On Company Profit Tax" canceled automatic profit tax exemptions for companies registered prior to January 1, 1995, with qualified foreign investment of more than \$100,000. The laws "On Value Added Tax" and "On Business Profits Tax" were passed by Parliament during the first half of 1997, formally providing for a more favorable VAT and corporate tax; essentially, a more similar tax structure to those found internationally. However, the language of the new laws and procedural issues, as well as numerous small amendments, often diminish the content of the laws and create additional problems for corporate taxpayers.

Income received from royalties and interest is subject to a 15% withholding tax. The withholding tax on dividends is 30%.

Both Ukrainian and foreign entities pay their taxes on a quarterly basis. It is important to obtain the services of experienced international accountants for tax-reporting purposes, as many local accountants have not yet made the switch to the international accounting standards required for new tax reporting.

A new tax code, with significant changes to the tax regime, is expected to be introduced in the year 2000. The complete text of the current draft tax code in Ukrainian can be viewed at the following web site: <http://www.tax.com.ua>. An unofficial English translation can be viewed at: <http://www.tax.economy.org.ua>.

B. Trade Barriers: Tariffs, Non-Tariff Barriers and Import Taxes

The daunting menu of a value added tax (20%), import taxes (ranging from 0 to 20%), and excise taxes (up to 300%) presents a major obstacle to trade with Ukraine. The VAT is levied at 20%, based on the customs value on the invoice, and is generally payable at the time of customs clearance by the importer. A promissory note can also be applied. Many agricultural enterprises are exempted from the VAT. As the list of goods exempted from VAT changes frequently, businesses should contact CS Kyiv for the most up-to-date list.

Import duties differ and largely depend upon whether a similar item to that being imported is produced in Ukraine; if so, the rate may be higher. Excise taxes are applied to a number of luxury goods, including alcohol, automobiles, jewelry, tires, and tobacco. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for importing products. Payment should be made in Ukrainian currency at the Ukrainian National Bank exchange rate effective on the day of payment. The value of excise duty should be calculated in the following way:

$$[(V+D+F) \times R]/100$$

V = customs value of goods

D = import duty

F = customs fee

R = excise rate (a percentage for goods other than alcohol, tobacco, and automobiles)

(V+D+F) multiplied by 20 (rate of VAT) and divided by 100 will give the amount payable of VAT.

Excise duties for alcohol, tobacco, and automobiles are not calculated by their customs value, but rather by volume, units, or weight (engine volume, in the case of automobiles) imported into Ukraine. These duties are declared in ECU (European Currency Unit) per unit and paid in local currency at the exchange rate effective on the date of payment. Ukraine prohibited the import of cars more than five years old, effective April 1, 1998.

During 1997, Ukraine increased import duties for the majority of agricultural and food products, as well as imported tires, clothes, and apparel. GOU policy to protect domestic manufacturers will probably result in gradually increasing import duties for other items produced in Ukraine. Import duties on certain types of gas meters, also manufactured domestically, were raised in 1998. In order to generate additional state budget revenues, the government increased excise duties on some categories of goods. A June 24, 1998 presidential decree "On Rates of Excise Duty on Petroleum Products" provided for raising excise duties on petroleum products.

C. Customs Valuation

Customs valuation in Ukraine conforms with world standards, where customs value is defined as the sum of the sales price, transportation costs, freight, insurance, storage fees, and any other costs not foreseen in the contract price. Receipts should be presented to document these costs and to allow customs officers to determine the proper customs value. In the event that receipts are not available, Ukrainian customs will assess the customs value using comparative pricing of similar goods and services in the country of origin.

D. Import Licenses

On January 4, 1999, the Cabinet of Ministers of Ukraine issued a resolution regulating import licenses. Goods subject to import licensing include: agricultural chemicals, pharmaceutical products (except dental materials and sutures), veterinary medicines, cosmetics, hygiene products, matrix forms used for manufacturing of audio production, ozone ruining chemical substances (including disperse sprays of paints and enamels, perfume, body lotions, etc., solvents for paints, fire extinguishers and fillings for fire extinguishers, oil and greases in sprays, conditioners and refrigerating equipment, and vending machines which have refrigerating units).

Most import licenses are granted through the Ministry of Foreign Economic Relations and Trade, or through one of its regional branches controlled by the State Customs Committee of Ukraine. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs. Import

licenses are issued in coordination with:

- A. The Ministry of Agriculture and Food, State Chemical Commission - for agricultural chemicals; Ministry of Ecology - if such substances are supplied in sprays;
- B. The State Committee for the Medical and Microbiological Industry for pharmaceutical products, cosmetics, and hygiene products; Ministry of Ecology - if such substances are supplied in sprays;
- C. The Ministry of Agriculture and Food's Main Department of Veterinary Medicine and the State Veterinary Inspection for veterinary medicines.
- D. The State Agency for Intellectual Property Rights under the Cabinet of Ministers of Ukraine - for matrix forms used for manufacturing of audio production.
- E. Ministry of Ecology - ozone depleting chemical substances (including disperse sprays of paints and enamels, perfume, body lotions, etc, solvents for paints, for fire extinguishers and fillings for fire extinguishers, oil and greases in sprays, conditioners and refrigerating equipment, and vending machines which have refrigerating units).

A copy of the contract and import certificate are basic documents necessary for obtaining an import license.

E. Export Controls

Export control is administered by Ukraine's Department of Analysis and Coordination of Export Policy, Cabinet of Ministers. The Ministry of Foreign Economic Relations and Trade of Ukraine also monitors and sets export prices for a number of Ukrainian goods.

Cabinet of Ministers of Ukraine Resolution #767, dated July 15, 1997, determines provisions for the examination of Ukraine's export and import goods. The controlled goods are understood as:

- military and other special commodities and "dual-use goods";
- military and special goods (armaments, material, explosives, components, and accessories thereof, and attendant technologies, also other products and technologies, works, and services designed to be applied in the military sphere or those qualified as state secrets);
- certain commodities, equipment, materials, software/firmware that may be used when developing weapons of mass destruction (e.g., nuclear, chemical, bacteriological, biological, and toxic weapons), delivery vehicles, or when developing conventional armaments and special equipment.

Export control is administered by authorities of the Government Export Control Policy Commission and the Derzhexportkontrol (National Export Control Committee) implementing national control over protection of national security interests in compliance with Ukraine's international commitments regarding non proliferation of weapons of mass destruction and delivery vehicles, restricted transfer of conventional armaments, and other measures aimed at protecting national interests.

Government and non-government expert examinations in the export control domain may be preliminary, basic, repeated, and supplementary.

Preliminary expert examination shall be carried out for identification of expert examination objects, among those submitted by the given business entity, as controlled goods entered in appropriate lists; assessment of the given business entity's observance of the export control laws and presence of appropriate regulatory documentation; and assessment of the possibility of delivery of goods designated by the given business entity to certain countries.

Basic expert examination is aimed at preparing substantiated findings to be used in deciding on the possibility and conditions of exporting/importing and/or transiting certain controlled goods.

Repeated expert examination may be carried out in the presence of transgressions of terms and conditions of preliminary or basic examination, or if requested by the customer ordering such expert examination, provided essential shortcomings have been discovered in such preliminary or basic expert findings. Supplementary expert examination is carried out in the presence of circumstances affecting or capable of affecting preliminary or basic expert findings.

A person/entity ordering a preliminary, basic, repeated, or supplementary expert examination has the right to: determine the need of such expert examination; request replacement of experts; and receive progress reports at all stages of such expert examination. Ukrainian law prohibits the disclosure of any information relating to the documents involved in the expert examination or produced as a result of this examination without the customer's written consent.

A preliminary expert examination in the export control domain is mandatory, and is carried out by the Derzhexportkontro l. This involves other central executive authorities and government bodies, along with legal entities authorized by the Government Export Control Policy Commission.

In order to have controlled goods examined using preliminary expert procedures, a business entity forwards a brief summary in writing to the Head of Derzhexportkontrol, along with:

- three copies of an application for such preliminary expert examination, executed using set form;
- notarized copies of the statute, constituent agreement, and official registration certificates of this entity;
- a technical affidavit specifying each object/item to be exported/imported, along with technical characteristics and a reference to an entry in the relevant list of controlled goods. Should this entity intend to export/import technologies, works or services, the said technical affidavit shall include summaries of these technologies/works/services. This technical affidavit should be signed by the official in charge of the given entity and by the commander of the military agency there (if any), and should be attested to with the official seals of this entity and military agency;
- reference (affidavit/statement) testifying to the degree of classification (secrecy) of the goods exposed to such expert examination, to be signed by the official in charge of this entity, head of its special departments and

- by the commander of the military agency (if any), attested to by the official seals of this entity and military agency;
- a list of countries to which such controlled goods will be exported or vice versa: reference/affidavit/statement identifying officials securing the giving entity's compliance with the current export control laws.

In addition to the documents indicated, non-government expert findings carried out as commissioned by the given entity should also be enclosed.

The term of such preliminary expert examination is determined on the assortment and amount of goods exposed to examination, and lasts up to sixty days from the date of presentation of the complete package of required documents by this business entity.

Basic expert examination is mandatory when deciding on the issuance of a permit allowing for the import, export or transit of controlled goods. This examination in the export control domain is carried out by the Derzhexportkontrol, other central executive authorities, and government bodies acting within their respective competence, also by legal entities and experts acting under appropriate authority (as submitted and justified or substantiated by the Derzhexportkontrol, or as resolved by the Government Export Control Policy Commission).

Basic expert examination is carried out as per documents submitted by the given business entity requesting permission to export/import controlled goods. Lists of these documents are determined in relevant provisions and regulations dealing with import/export/transit procedures with regard to controlled goods. These lists are subject to approval by the Cabinet of Ministers of Ukraine.

Cabinet of Ministers of Ukraine Resolution #15, dated January 4, 1999, lists goods subject to import/export quotas and licensing in 1999, which are issued by the Ministry of Foreign Economic Relations and Trade of Ukraine in coordination with the Ministry of Finance. The list of these goods is updated annually. Most of these commodities are:

- ferrous and non-ferrous metals and their scrap, ferrosyticomanganese;
- crude magnesium;
- flat section iron and plain steel;
- amber, precious metal ores and concentrates, precious metals in colloidal state;
- non-organic and organic compounds of precious metals with a definite or indefinite chemical composition;
- precious metal amalgams;
- cut or uncut diamonds, unmounted and unfixed;
- precious stones (except diamonds) and semiprecious stones, cut or uncut;
- silver (including gold or platinum plated silver), untreated, semi-treated or powdered;
- gold (including platinum plated gold), untreated, semi-treated or powdered;
- platinum, untreated, semitreated or powdered;
- scrap and waste of precious metals and those plated with precious metals;
- coins (only of precious metals).

The below listed goods, if exported directly by the State Treasury of the National Bank, are license-free:

- textiles;
- cotton yam, unpacked, for retail outlets;
- cotton cloth, except those using intermittent, terry weave, narrow woven fabrics, pile weave , chenille, tulle, and other cheesecloth like fabrics;
- garments;
- fabrics, except gray or bleached cloth;
- cloth made using natural and synthetic fiber;
- fabrics made using continuous synthetic composite threads;
- fabrics made of synthetic staple fiber;
- fabrics made of fleece or lamb's wool of fine animal hair;
- ropes, cables, cords, braided and otherwise, made of synthetic fiber;
- flax or tenter yam (for stretching cloth);
- flax or tenter fabrics.

A categorized specific listing can be obtained at the Ukrainian customs or Ministry of Foreign Economic Relations and Trade of Ukraine and Ukrainian State Export Control Committee.

Given the fluid environment in Ukraine, U.S. businesses are advised to contact the Ukrainian Center for Export and Import of Special Technologies, Machinery and Materials for the latest information concerning export controls. Contact Oleksandr Siver, Director, 19/21, Frunze St., Kyiv, Ukraine; Tel: (380-44) 462-5558; Fax: (380-44) 463-7147.

F. Import / Export Documentation

To the uninitiated, importing into Ukraine can prove to be a daunting experience of paperwork and frustration. Importers are required to complete a customs freight declaration for every item imported. Use of licensed customs brokers to navigate the morass of the Ukrainian customs bureaucracy is recommended, as constantly changing regulations and, in many cases, the mood of the customs officer, can hinder the successful import of a product.

Many U.S. companies with the intention to invest will import equipment, vehicles, and other goods under the aegis of authorized capital (or statutory fund), which will be exempt from customs duties. Goods that are to be re-sold in Ukraine, however, are assessed high value-added, import and, if applicable, excise taxes.

According to international practice, all imported/exported goods are subject to customs and border control checks. There are 70 approved customs clearance points across Ukraine - at all international ports, international (and several domestic) airports, and railway and road border crossing points. Every checkpoint covers a particular geographical area. Therefore, U.S. exporters should decide whether to pay all taxes and duties at the border or at the customs checkpoint nearest to the imported goods' final inland destination. Although the procedures are generally the same, the latter method is considered preferable. Customs clearance can be a lengthy process, so it is better that goods are secured and guarded until closer to their final destination point. Please note that the importation of alcohol and tobacco goods into Ukraine can only be cleared through the Sevastopol, Mariupol, and Ilichevsk ports.

Upon crossing an international border point, goods will be classified in one of two ways: transit or customs cleared. If marked transit, the container or vehicle will be sealed by customs authorities and then customs cleared at its final destination. Additionally, vehicles transporting goods marked for transit which are subject to excise taxes are required to be wrapped in a transit band all the way through Ukrainian territory. This band is obtained at the customs checkpoint and has an assigned number, which is designated on the customs declaration.

The importer/freight forwarder should have all documents ready for presentation to the Ukrainian customs authorities, including:

- the signed contract;
- cargo customs declaration with the description and value of goods, term of payment (i.e., cash, bank transfer, barter, etc.) and terms of shipment. If payment is made by bank transfer, the name of the bank, address, and account number should be included;
- import license, if required;
- if importing weapons, ammunition, explosives, or poisonous substances, written permission is required from the Ministry of Internal Affairs;
- if importing electronic radio and equipment and high-frequency devices, written permission is required from the Ministry of Telecommunications;
- if importing drugs, medical preparations, and sources of ionizing radiation, written permission if required from the Ministry of Health.

G. Temporary Entry

Regulations pertaining to foreign companies and representative offices bringing in demonstration and exhibition samples are governed by the "Temporary Clause on the Regime for the Temporary Import of Goods, Property, and Transportation Means," issued by the State Customs Committee of Ukraine on December 30, 1991. These regulations classify imported items designated for demonstrations at exhibitions, fairs, and trade shows, as the temporary import of a foreign company's property, which is to be returned to that country afterwards. The temporary import of demonstration samples, excluding goods not allowed for importation, can be undertaken without registering the importer as a subject of foreign economic activity in Ukraine. This bypasses a burdensome bureaucratic process.

Temporarily imported goods can remain in Ukraine for one year from the date a customs declaration is submitted. If warranted, this term can be extended by local customs authorities for the duration of an economic, scientific, humanitarian, or other event in which the temporarily imported goods are required. The set term of temporarily imported goods should be reflected in the customs declaration. Samples may be shipped out of the country after usage via any customs point. Prior to their customs declaration expiration, temporarily imported goods should be:

- returned outside the Ukrainian customs border;
- declared at customs for further use;
- passed to customs for storage in a bonded warehouse; or demolished under customs control if these items can not be used as goods, products, or equipment.

The following documents are required for temporarily importing demonstration samples: a customs declaration; permission from the respective Ministry, if required; and other documents outlined in the customs declaration.

Prior to being returned, samples are inspected by customs authorities to ensure the quantity and description of goods matches that which was registered at the time of importation. The customs fee for temporarily imported goods is \$30 for each customs declaration. When a large number of samples are imported, additional pages, costing \$15 each, should be attached. Demonstration samples to be returned outside Ukraine are exempt from customs fees.

In 1997, Ukraine imposed additional limitations on the temporary entry of cars to Ukraine. Corporations and individuals may now bring only one car per company/individual in Ukraine, for a period of three years, exempt from customs fees.

H. Labeling and Marking Requirements

Ukrainian commercial legislation does not impose general labeling requirements on imported goods, except food items. All imported food products effective January 1, 1997 should carry labels in the Ukrainian language. The labels should include information about the manufacturer, product ingredients, and expiry dates for quality control purposes. In addition, some labels/markings which should be adhered on specific products, including labels for hazardous materials, labels indicating the contents and expiration date of foodstuffs, and markings indicating the voltage and frequency of electric appliances. Detailed information on labeling requirements for particular products can be obtained at corresponding Ukrainian ministries and agencies.

I. Prohibited Imports

The Ukrainian government strictly controls and restricts the import of weapons, narcotics, chemical and hazardous substances, certain pharmaceutical and communications related products (See Subsections D and E of Chapter 6).

U.S. companies wishing to import these goods should contact the relevant Ukrainian government ministry responsible for issuing licenses (i.e., the Ministry of Internal Affairs licenses the import of hunting rifles). For further information, please contact: U.S. Department of Commerce, Bureau of Export Administration, 14th and Pennsylvania Ave., N.W., Washington, DC 20230; Tel: (202) 482-0500.

J. Standards

A 1994 governmental decree imposed compulsory certification requirements for goods imported into Ukraine. The decree specifies a list of goods subject to certification and regulates certification procedures. Certificates may be one of two types: (a) Certificate of Acceptance of a foreign certification issued by a Ukrainian certifying agency (DerzhStandard), and (b) Conformance Certificate issued by a Ukrainian agency upon certification of goods.

This decree states that certificates issued by foreign certification authorities are to be recognized in Ukraine only to the extent provided in

international treaties to which Ukraine is party. Taking into account that there are currently no intergovernmental agreements on product certification between Ukraine and the U.S., a foreign certificate of acceptance will not be honored without first testing the product.

To apply for certification, the following documents issued outside Ukraine confirming a product's conformance to specific requirements are to be submitted to the DerzhStandard:

- an application stating that the company wishes to certify imported products;
- a certificate of conformance;
- standards (technical conditions) of production and the procedures for certification;
- a certificate of accreditation from the testing laboratory;
- a protocol/summary of test results;
- a certificate of quality control;
- a certificate of origin (manufacturing).

DerzhStandard has created a network of 93 certifying bodies and testing laboratories (centers), located throughout Ukraine. Each center is responsible for testing a particular item. For example, only the L'viv-based Electroncert Center issues certificates for TV sets and VCR's, while certificates for radio communication equipment should be obtained from a center in Sevastopol. However, companies seeking testing should first contact DerzhStandard, as they make the ultimate determination on certification.

As of July 1, 1996, DerzhStandard adopted as national standards the ISO-9000 series for production systems certification. Based on these standards, Ukrainian certification bodies can evaluate the quality of a production system rather than the quality of a single product. The procedure for issuing ISO certificates requires a visit from Ukrainian standards specialists to the importer's production facilities to inspect the system's quality. Adoption of the ISO-9000 series should facilitate the process of certifying goods as system quality certificates are issued for a three year period. According to DerzhStandard, the ISO900 standard certificate doesn't prevent the importer from certifying individual products. However, with this certificate, only selective goods will be certified according to the procedures described above.

K. Free Trade Zones / Bonded Warehouses

Free Trade Zones:

Under Ukrainian Law "On Special (Free) Economic Zones," adopted in 1997, there are three types of special economic zones in Ukraine: 1) special (free) economic zones; 2) territories with a special investment regime; and 3) territories of priority development. They differ by tax concessions granted to business entities that choose to operate in the zones, but the key elements may be summarized as follows:

- Exemption from corporate profit tax during the first three to five years of project implementation and taxation at reduced rates during subsequent periods;
- Exemption from import duty and import VAT;

- Reduced rates of withholding tax on income derived by non-residents and on dividends;
- Exemption from mandatory conversion of revenues in foreign currency;
- Exemption from social insurance tax and payments to the state innovation fund;
- Exemption from land tax or taxation at reduced rates, and others.

In addition, the territories of special investment regime and of priority development do not have independent customs borders as free economic zones do. Each zone is managed by an administration that also approves and registers all investment projects to be carried out in the zone. Normally, free economic zones are created for the period of 10 to 30 years.

As of July 15, 1999, five free economic zones were in operation in Ukraine:

- Syvash FEZ (in Northern Crimea)
- Azov (in Donetsk Oblast)
- Donetsk (18 towns in Donetsk Oblast)
- Zakarpattya (Zakarpatska Oblast including autoport "Chop" on Ukrainian-Hungarian border)
- Port "Reni" (in Odesa Oblast)

Four more special economic zones will be in operation as of January 1, 2000, as the relevant legislation has already passed parliamentary scrutiny. These are:

- Yavoriv (L'vivska Oblast bordering Poland)
- Truskavets (L'vivska Oblast)
- Slavutych (satellite-town of Chornobyl NPP)
- Mykolayiv (including Ukraine's largest ship-building plant in the city of Mykolayiv)

Despite earlier statements about not establishing new free economic zones (in compliance with IMF requirements not to grant new tax benefits), President Kuchma, in June 1999 alone, signed eight decrees creating new free economic zones and territories of priority development. If not rejected or amended by parliament within 30 plenary days, these decrees will become laws validating, as of January 1, 2000, special regimes on the following territories:

- FEZ "Interport Kovel" (in Volynska Oblast bordering Poland)
- FEZ "Port Crimea" in Kerch, Crimea, and the territories of priority development (that include Grand Yalta, Alushta, Sudak, Feodosiya, eastern Crimea)
- FEZ "Porto-Franco" in Odesa Sea Port
- Kharkiv (special investment regime)
- Territory of priority development in Volynska Oblast (includes Novovolynsk)
- Territories of priority development in Zhytomyrska Oblast (includes nine rayons in Zhytomyrska Oblast)
- Territories of priority development in Chernihiv Oblast (includes six rayons in Chernihiv Oblast)
- Shostka (special investment regime)

As of July 15, 1999, the parliament has turned down only one decree (on Shostka), but the president resubmitted the bill for reconsideration.

The Cabinet of Ministers of Ukraine approved a uniform contract for implementation of investment projects in free economic zones. The uniform contract has to be conducted between an investor and the FEZ administration. The contract lists tax, customs and other benefits to be awarded to an investor, specifies phases of project implementation, investment schedules, new jobs, etc. The contract should also list predicted annual volumes of production, sales or services. The contract should state as a condition that a project must begin no later than three months after the signing of a contract.

Ukraine has 18 ports that are located on the coasts of the Black Sea, Azov Sea, and on the rivers Danube, Yuzhniy Bug and Dnipro. Ports are currently under the authority of the Ministry of Transportation's Department of Sea and River Transport. All seaports are state-owned, except Sevastopol. Most river ports have been turned into closed or open joint stock companies. The government of Ukraine is attempting to turn the most successful seaports into free ports by establishing free economic zones around them, but the pace of reform is very slow. As of July 1999, only one - the Port of Reni, located on the left bank of Danube - had free port status. The other one - Porto-Franco, in Odesa - was created by presidential decree in June, but is still pending Rada approval. Two others - Mariupol (Azov Sea) and Ilichevsk (Black Sea) - are being considered for free port status.

Bonded Warehouses:

As in many other countries, import-export operations may be conducted as sales through bonded warehouses. Using this system, the customer collects ordered goods by presenting a sales receipt to warehouse operators. Since such operations often involve offshore contracts, the bonded warehouse is a device frequently employed by non-resident companies that do not directly do business in Ukraine. Such bonded warehouses can be either state customs points or privately-owned warehouses for the use of one or multiple clients (open versus closed warehouses).

Most foreign investors simply lease space in existing privately bonded warehouses. Larger importers may prefer to establish their own closed and secured facility. A representative office should note, however, that the establishment of an open warehouse may be considered a commercial activity by the Ukrainian Tax Inspectorate and possibly be subject to relevant Ukrainian taxes. Common business practice in Ukraine is to utilize a "closed" bonded warehouse; opening a bonded warehouse is a very complicated affair involving the State Customs Committee, a great deal of paperwork, and possibly organized crime.

To establish a bonded warehouse as an importer, one must first obtain a license to open a warehouse from the Ukrainian Customs Committee office nearest to where the warehouse will be established. To obtain such a license, one must present the following documents to Customs officials:

- an application (the application form should be obtained from the Customs Committee) stating that the enterprise wishes to establish a specialized bonded warehouse (solely for the storage of that enterprise's goods);
- a registration card of the entity opening a warehouse;
- a schematic diagram of the warehouse premises, indicating location of alarm systems and customs areas;
- an approximate list of goods intended to be stored in the warehouse.

Upon submission of the application and supporting documents, the warehouse must be ready for operation and equipped as a bonded warehouse. All interior renovations, including alarm systems, must be completed by this time. To open a warehouse, one must pay a set fee of the Ukrainian hryvnia equivalent of \$500 (at the National Bank of Ukraine's official exchange rate). Formal registration of the warehouse is normally done within 15 days after an application has been submitted. As a bonded warehouse licensee, an enterprise should also note that it will have to hire an official customs inspector on an as needed basis to actually clear and approve shipments of goods. As a licensee, the enterprise can hire its own personnel to supervise the submission of customs declarations, but the customs official actually approves final clearance.

L. Special Import Provisions

A June 18, 1998, presidential decree gives the Cabinet of Ministers the right to amend excise and import duty rates on goods from a list approved by Parliament. It also stipulates that the Cabinet of Ministers is banned from setting "zero" rates of excise and import duties. The decree was signed in accordance with the "Transition Provisions" of the Ukrainian Constitution, and is slated to take force in 30 calendar days if Parliament does not vote down the bill by the same name.

Parliament amended the Cabinet of Ministers decree "On the Unified Customs Tariff of Ukraine," dated June 12, 1997, to establish that changes in rates of duties stipulated in the Unified Customs Tariff are to be made only by the Parliament. However, temporarily, "until legislative regulation of issues involving the Unified Customs Tariff of Ukraine," the Cabinet of Ministers is granted the right to change customs duty rates on goods, except excise goods and goods for which duty rates are established by Ukrainian laws. Meanwhile, lowering duty rates for separate juridical and physical persons or on separate contracts, or exempting them from payment of the duty, and postponing payment deadlines is prohibited.

M. Membership in Free Trade Agreements

Ukraine has signed free trade agreements with each of the former Soviet republics, excluding Kyrgyzstan and Tajikistan. Ukraine participates in the Black Sea Cooperation Council, along with Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, and Turkey. Currently, negotiations are underway for the establishment of a customs union with neighboring Moldova, as well as discussions for a Baltic-Black Sea cooperation agreement. Ukraine intends to become a full member of the Central European Free Trade Agreement (CEFTA), which is predicated on Ukraine first becoming a member of the World Trade Organization. Ukraine is not planning to join the Commonwealth of Independent States customs union.

Chapter VII: Investment Climate

A. Openness to Foreign Investment

The Ukrainian government officially maintains that it is actively interested in creating a free market economy and openly seeks foreign investment. However, Ukraine is struggling through its transition, has been slow in implementing much-needed reforms, and has failed to establish an investment climate that encourages business and investment. In May, President Kuchma publicly stated a need for \$ 40 billion in foreign investment over the next five years. However, many foreigners considering investing in Ukraine were waiting until after the presidential elections scheduled for October 1999.

According to the State Statistics Committee, annual inflow of foreign direct investment (FDI) in Ukraine did increase more than 21 percent from 1997 to \$ 922 million in 1998. (One reason for the FDI increase in 1998 was the strategic agreement between the government of Ukraine and Korean Daewoo that led to investment in the Ukrainian Zaz plant.) However, the statistics committee reported that foreign direct investment in Ukraine fell by more than 42 percent during the first quarter of 1999 compared with the same period in 1998. While total cumulative foreign direct investment was more than \$ 2.8 billion as of April 1, it remains low compared to others in the region. By comparison, Poland received more than \$ 10 billion in foreign direct investment in 1998 alone.

Although the Ukrainian government wants foreign investment, it has had difficulty adopting and implementing legislation that would encourage it. It passed a Foreign Investment Law in April 1996, which guaranteed registered foreign investors equal treatment with local companies and possible special privileges for investors. Furthermore, the law provided certain protections, including general guarantees against expropriation, unhindered transfer of profits and post-tax revenues, and a ten-year guarantee against changes in legislation that affect these basic protections. However, certain of its provisions, in particular, a tax holiday, were subsequently suspended by Parliament, thus damping the inflow of foreign capital.

In May 1999, Parliament established government guarantees for investment protection and introduced a provision prohibiting changes in legislative regulations during the term of the investment; however, foreign investors are unsure what the law's actual impact will be. The U.S.-Ukraine Bilateral Investment Treaty, which took effect on November 16, 1996, provides further protection for U.S. investors. However, use of international arbitration under the treaty is regarded as a tool of last resort and is not very practical for solving everyday problems that businesses continually face.

In 1997, President Kuchma created a Foreign Investment Advisory Council to advise the President on trade and investment matters. The third annual meeting took place in May 1999, chaired by President Kuchma and attended by numerous high-level Ukrainian government officials and representatives of high-profile foreign companies. The Council raised a number of issues of concern to foreign investors in Ukraine, particularly tax problems. The President has also formed a Chamber of Independent Experts -- consisting of Ukrainian and foreign legal experts -- designed to serve as a non-binding arbitration forum capable of rendering an impartial opinion on dispute cases brought before it. The economic ministry also created a "hot line" for investors last year, although -- so far -- most of the callers have been Ukrainian.

Despite these efforts, a recent survey conducted by the International Finance Corporation (IFC) found that three-quarters of small businesses feel that government authorities have a hostile attitude towards entrepreneurial activity, and almost all reported that they receive no support from the government.

Ukrainian legislation restricts foreign participation to 49 percent or less in the charter capital of enterprises in certain sectors and in certain privatized "strategic" enterprises; foreign shares of TV and Radio broadcasting companies cannot exceed 30 percent. Ukraine's anti-monopoly law also requires that the establishment of a legal entity, mergers, and acquisitions be approved by the anti-monopoly committee if the investment fulfills certain criteria (e.g. acquiring a certain percentage of the voting rights in an enterprise). Nearly all equity investments, joint ventures with multiple participants, and share acquisitions require anti-monopoly committee approval, a lengthy and fairly costly undertaking.

Privatization officially started in 1992 with the establishment of the State Property Fund. Privatization met strong bureaucratic and parliamentary resistance and was suspended in 1994. A presidential decree in November 1994 instituted a new voucher-based mass privatization program (MPP). Prior to 1995, 1,200 medium- to large-enterprises were privatized through an employee lease-buyout program, whereby employees' leases were converted to ownership. Beginning in 1996, voucher sales began for medium- and large-industrial enterprises. Usually, 20 percent of the shares in an enterprise were sold on a preferential basis to employees, 20 percent were sold to the public in exchange for privatization certificates, and the remaining shares were then sold for cash. There was no restriction on foreign ownership. In a limited number of cases involving "strategic enterprises," the state retained 26-51 percent ownership.

In 1998, the government planned to raise UAH 1.04 billion (approximately \$ 270 million) through cash privatization, but eventually only raised UAH 340 million (\$ 80 million). Through June 1999, the government has raised \$ 62.5 million, largely through the hundreds of share packages offered on stock market exchanges. Too high an asking price for shares offered, the failure to offer majority shareholdings to investors, and onerous investment obligations accompanying the share packages are all contributing to low privatization revenue. Nevertheless, more than ninety percent of all medium and large enterprises have been privatized to date - 9,500 out of 10,000. These private enterprises account for 62 percent of Ukraine's industrial production and 50 percent of Ukraine's industrial employment.

To date, management/employee purchases remain the most popular form of privatization, with the majority of shares in medium and large enterprises held by employees and the public. However, most of these newly privatized enterprises are not easily restructured: their ownership is too diffuse; their shares are not actively traded in the secondary market, discouraging further investors from buying; and, in some cases, the government retains a 25 percent-plus-one block of shares, permitting it to block restructuring if it chooses. As a result, these enterprises continue to suffer from a lack of investment capital. Those few that are restructuring are among the most attractive firms, and they are just beginning the process.

As for foreign participation, investors can participate in public auctions, either as private investors or through investment funds; compensation certificate auctions, held monthly, which sell certificates introduced in 1996 to compensate Ukrainian citizens for the adverse effects of the hyper-inflation years; and tenders, one type involving only an up-front cash purchase of a share package in an enterprise, and a second type which also requires, in addition to the above, a commitment for further investment in the future. The privatization program also provides for commercial and non-commercial tenders, usually not closed to international investors, in which a strategic investor could buy a 25 percent (occasionally more) block of shares.

Foreign investors are not particularly discriminated against at any stage of the privatization process. The procedures for conducting tenders were designed to attract strategic investors (language in the 1999 privatization program implies equal treatment to all parties, especially foreign investment). The overall rules are the same for foreigners and locals. Cash auctions must go through a local institution, but it is not difficult to find a broker to represent foreign investors. From the start of the privatization process up to the purchase a level playing field exists. Although Ukraine's written privatization laws and regulations are not perfect, many believe that corporate governance issues (unfair treatment by company management toward all outside investors -- foreign and domestic -- who have not come to terms with management) are a major impediment to the success of privatization and enterprise restructuring in Ukraine.

In February 1999, Parliament adopted the 1999 Privatization Program. The program called for the privatization of 455 medium and large-scale enterprises, 5,500 small enterprises and 402 unfinished construction sites. Also, the privatization process for over 400 grain elevators had started by May 1999, with at least 70 percent of over 350 elevators being sold. Yields from the sale of state property were expected to bring UAH 800 million worth of receipts to the state budget. Land privatization continues to move slowly and will probably not be addressed this year. In addition, a number of enterprises remain on the Parliament's "negative" list, i. e. they can not be privatized.

An organization called the National Agency for Management of State Corporate Shares (NAMSCR) has been created by presidential decree, which has further complicated the privatization process. The State Property Fund has transferred state owned share packages to NAMSCR which auctions off the "management rights" of the enterprises. NAMSCR adds another level of bureaucracy and further complicates the privatization process. Rumors persist of the privatization of Ukrtelecom (the state telecom monopoly), but little progress has been made. Few expect great strides in privatization until after the presidential elections in October 1999.

Although the government has reduced many subsidies provided to state-owned industries, they still remain quite significant. For the most part, these subsidies appear not to be specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production. The government does not target export subsidies specifically to small business. In conjunction with its application to join the World Trade Organization, Ukraine is negotiating to join the WTO Subsidies Code.

B. Right to Private Ownership and Establishment

The Constitution of Ukraine (June 28, 1996) guarantees the right to private ownership, including the right to own land. In addition, Ukraine's law on ownership, which was one of the country's first major parliamentary measures, specifically recognizes private ownership and includes Ukrainian residents, foreign individuals, and foreign legal entities among those entities able to own property in Ukraine. Moreover, the law permits owners of property (including foreign investors and joint ventures) to use such property for commercial purposes, to lease property, and to keep the revenues, profits, and production derived from its use. The law on ownership does not, however, establish a comprehensive regime regulating the rights of ownership and the mechanisms for their transfer. Some difficulties have arisen over foreign acquisition of majority control of enterprises, with the government or the current management continuing to exercise effective control or veto power over company decisions.

The land code of Ukraine, adopted in 1992, regulates the ownership, use and disposition of rights and interests in land. The Code was adopted four years before the Constitution (1996) and is inconsistent with it in some of its provisions. Although the Land Code facilitated widespread private ownership of residential and dacha plots, the right to own land is still subject to substantial limitation. Only citizens of Ukraine may own private land, and only for private residences or agricultural use. The land code does not permit legal entities -- regardless of whether they are Ukrainian companies or foreign entities -- to own land in Ukraine. (Ukrainian agricultural companies are exempt from this restriction). The land code also prohibits ownership of land by foreigners and only provides for their right to the use and lease of the land. Subsequent presidential decrees, including a January 1999 decree providing for the purchase of non-agricultural land by Ukrainian legal entities, have opened the way for private enterprises to own land. However, law firms have generally advised foreign investors not to conduct land transactions based on presidential decrees that contradict the land code and may be challenged in court.

In June 1999, President Kuchma issued a decree permitting mortgages of land and buildings, both private and commercial. However, banks are reticent to provide financial backing for the purchase of real or personal property. Another deterrent to bank lending is an underdeveloped legal system minimizing creditors' chances of seizing property. USAID has been instrumental in the creation of a pledge registry, the first of its kind in the former Soviet Union, which applies to individuals' obligations with regards to movable property and tax liens. Though rudimentary, the registry is nation wide, providing a more transparent lending market for personal property.

C. Protection of Property Rights

Ukraine has already established a comprehensive legislative system for the protection of intellectual property rights. As a successor state to the former Soviet Union, Ukraine is a member of the Universal Copyright Convention (May 1973), and the Convention establishing the World Intellectual Property Organization - WIPO (April 1970). After independence, Ukraine became a signatory to a number of key international agreements. In addition, Ukraine has laws On the Protection of Rights in Inventions and Utility Models (1993);

On the Protection of Rights in Industrial Designs (1993); On the Protection of Rights in Marks for Goods and Services (1993); and On the Protection of Plant Variety Rights (1993). It has a number of draft laws ranging from the protection of geographic place names to the protection of software.

Although these intellectual property rights (IPR) laws are already in place, Ukraine was placed on the Special 301 Watch List in 1998 because copyright piracy in Ukraine is extensive and enforcement is minimal, causing substantial losses to U.S. industry. For example, it is estimated that 90% of all computer software in use in Ukraine is pirated. On May 1, 1999, Ukraine was moved to the Priority Watch List. Ukrainian legislation has inadequate criminal penalties for copyright piracy and none for infringement. In addition, pirate factories producing electronic media displaced from Bulgaria have found a home in Ukraine.

To address this problem, Ukraine is in the process of creating an anti-piracy committee with authority to conduct unannounced searches and to confiscate pirated goods. Administrative liability, in the form of fines and/or confiscation of products, equipment, and raw materials, may be sought in the event that an infringement of intellectual property rights is accompanied by unfair competition on the part of the infringer. However, fines are insignificant, and the law does not give the police or customs the authority to conduct seizure or ex parte searches. Compounding the situation, the judges understand little or nothing about IPR, should a case make it to court. Ukraine is attempting to remedy these shortcomings, but it admits this will take a long time.

Although Ukraine has taken some steps to improve its IPR regime in accordance with its two-year action plan to make its IPR legislation WTO-compliant, Ukraine still does not provide retroactive protection for sound recordings or for works created before 1973. Although the President signed the Phonogram Convention on January 1999, and Parliament has approved it for a first reading, Ukraine has not addressed the problem of retroactivity in a timely enough manner to satisfy U.S. industry concerns.

D. Performance Requirements/Incentives

There are no known cases of performance requirements being imposed on foreign investors in Ukraine. Ukraine modified its foreign investment law of 1996 and law of investment activity of 1992 several times, thereby removing certain tax breaks previously accorded foreign investors, equalizing tax treatment of foreign and domestic investors. The scope and the ability to make foreign investments was also strengthened. There are no tax breaks provided for in the new laws, but the foreign investor is granted a number of state guarantees, the most important being unhindered and immediate repatriation of profits and stable regulations for the time of the investment.

At the beginning of June 1999, President Kuchma issued several decrees providing certain tax benefits for foreign investors in the areas of finance and investment and submitted the provisions of the decrees to the Parliament as proposed laws. Foreign investors are still exempt from customs duties for any in-kind contribution imported into Ukraine for the company's charter fund. Some restrictions apply, however, and import duties must be paid if the

enterprise sells, transfers, or otherwise disposes of the contributed property for any reason.

New categories of visas are emerging in conjunction with Ukraine's new machine readable visas, causing some confusion. Business people can no longer extend their visas while in Ukraine; they must return to their country of origin. Americans are exempt from having to return to the United States -- they can pick up a visa at any Ukrainian Embassy outside of Ukraine -- but they still have to leave Ukraine to renew. Most go to Poland, Germany or the Czech Republic.

E. Transparency of the Regulatory System

In June 1999, Ukraine's finance minister submitted the government's first comprehensive tax code to parliament. In the meantime, businesses continue to cite Ukraine's tax regime -- with its hodge-podge of regulations, frequent legislative changes and sheer number of different taxes -- as hindering the development of their enterprises. Not only has the Ukrainian government changed tax laws frequently, making compliance difficult, but also retroactively. The fines imposed by the state tax authority are among the highest in the world.

Most troubling for foreign investors had been a regulation known as "Kartoteka II," which allows tax authorities to freeze the bank account of any entity that they believe to owe taxes -- without prior judicial proceedings. In a flurry of last minute decrees signed shortly before the president's economic decree power expired on June 28, the president signed a number of tax-related decrees, including one that requires a court ruling before tax authorities may freeze a bank account. However, parliament may amend the decrees before they take effect.

Several legislative changes aimed at reducing the number of inspections and simplifying business licensing and registration procedures for enterprises were introduced in late 1997 and 1998. Previously, any government monitoring entity had the power to inspect any enterprise, at any time, for almost any reason and without prior notice. Inspection by state bodies had been identified by the IFC survey as a major impediment to business operation; the average small business reported that it faced 78 inspections in 1997. A 1998 presidential decree restricted entities authorized to conduct financial inspections to one planned inspection per year and required at least ten days notice. While the average number of inspections of small businesses did drop to 13 in 1998, the decrease was more likely explained as a shift in focus toward large businesses, which reported an increase in the number of inspections, than the law, which went into effect in September.

Other laws reduced the steps required to register a business and the number of licensed activities. Ukraine reduced the overall number of licensed business activities in late 1997 from 112 to 42, although many still consider this lower number to be excessive. (As of April 1999, the number of licensed business activities increased to 51, not including six securities-related activities). The same survey reported that the time to begin operations in Ukraine had been reduced from 30 days in 1997 to 14 days in 1998. Still, various ministries and state bodies continue to require a number of other license-like permits. The bureaucratic procedures for obtaining various

permits, licenses, etc., are complex and unpredictable, burdensome and duplicative; they create confusion, significantly raise the cost of doing business in Ukraine, provide opportunities for corruption, and drive much activity into the burgeoning shadow economy.

Although there have been some improvements, foreign investors still regard Ukraine's production certification system as one of the most serious obstacles to trade, investment, and ongoing business, and many consider Ukraine's system to be far more difficult than Russia's. Ukraine's domestic production standards and certification requirements apply equally to domestically produced and imported products. Product testing and certification generally relate to technical, safety, and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. At a minimum, imports to Ukraine are required to meet the certification standards of their country of origin. In cases where Ukrainian standards are not established, country of origin standards may prevail.

The numerous certification bodies around Ukraine effectively operate as independent entities, often with monopolistic positions. Furthermore, these agencies work on a private profit basis, retaining 80 percent of the profits derived from certification fees and returning only 20 percent to the state. Pricing rules exist, but they are too vague to be enforced, and the State Standards Committee (the central governing body) does not have proper supervision over the various bodies. Much of the legislative and interpretive work is left to different agencies, with little or no coordination. For many products, multiple agencies are involved in the certification process, and often multiple certificates are required. Local, regional and municipal authorities often require additional documentation beyond that required by central agencies.

The existing system of rules and norms, based on Soviet practice, encourages rigid formality, inflexibility, and an absence of justice in the procedures. Under these rules, extremely wide powers are given to the certification bodies, with little control over, or responsibility for, decisions taken, permitting the introduction or modification of procedures without proper consideration of the applicant's rights. The applicant has few means to appeal against an unfavorable decision, further aggravated by limited access to existing procedures, norms and rules.

U.S. businesses in Ukraine repeatedly complain that there is a lack of clear regulations, the system is not transparent, the registration schemes are unfeasible for mass trade, the requirements are constantly changing and unevenly enforced, there is a lack of procedural flexibility, the import license procedures are overly complex and lengthy, and the certification and licensing fees are inordinately high. While the law may stipulate formal equality of treatment of both national and foreign companies, U.S. businesses are left with a very strong impression that the laws are not applied equally and that, in fact, there is a discrimination against foreign companies.

There is much discussion of regulatory reform, but to date little concrete progress (the only cited instance is the lowering of the number of licensed business activities). At present, there are no effective mechanisms to resolve business dispute cases. On occasion, disputes over international business arrangements have been settled only after President Kuchma or other national

leaders have become involved and a special law or decree enacted to cover the business arrangement.

F. Corruption

Corruption pervades all levels of government, according to press reports and foreign business complaints. Recognizing the problem, President Kuchma issued a decree in April 1997 establishing a national program against corruption, but its results are yet to be seen. Some corrupt acts have been criminally prosecuted, but many more that have been exposed have resulted in little or no action. The recent prosecution of some high-profile politicians has raised the question of "selective justice." Many anticorruption campaigns appear to be politically or economically motivated.

Corruption also permeates much of Ukraine's civil service and regulatory system. Conflict of interest is a poorly developed concept, and many officials and bureaucrats retain their commercial interests while in power. Corruption can also be institutional to the extent that certain government entities may own or have close ties to businesses that compete with those that they regulate. Government entities also use means that are off the balance sheet to pay for operations and expenses not funded by the state budget. A complicated and non-transparent regulatory system has also encouraged petty corruption at all levels of government. A professional administrative class is developing slowly, due in part to the low salaries of such professionals.

G. Labor

Ukraine has a well-educated and skilled labor force, with a nearly 100 percent literacy rate (98.6 percent). Although the official unemployment level is low (four percent as of June 1, 1999), most experts agree that: (1) reported unemployment is understated, (2) underemployment at state enterprises continues, and (3) employment in the informal sector accounts for a growing, but difficult to measure, share of the total labor force.

Wages in Ukraine remain very low by Western standards. The nominal average monthly wage in Ukraine in 1998 was 153.50 hryvnia, 7.2 percent more than in 1997. However, because consumer prices have grown more rapidly than the nominal average wage, real wages in 1998 were actually 12.9 percent less than in 1997, and real wages in 1997 were 2.4 percent less than in 1996. Because of the devaluation of the hryvnia in 1998, the average monthly wage converted to U.S. dollars fell from \$76.9 in 1997 to \$62.7 in 1998. (By comparison, in Russia the average monthly wage converted to U.S. dollars fell from \$164.3 in 1997 to \$112.8 in 1998). Many Ukrainians are forced to work second and third unofficial jobs to make ends meet, thereby making up a vast portion of the shadow economy. A 1998 report by the Harvard Institute for International Development suggested that the size of the informal economy is in excess of 70 percent of Ukraine's official GDP. (Most experts agree that the percentage is well over 50 percent.)

Slow movement on privatization and unwillingness of larger enterprises to reduce staff has negatively affected the labor market's ability to respond to new market conditions. A significant part of the Ukrainian labor force has migrated to the shadow economy, taking up service jobs such as taxi drivers, waiters, and traders to ensure economic survival. The last few years have

seen an increase in wage arrears, in some cases by as much as a year-and-a-half. Plant managers continue to see employment of their work force as a key priority, and foreign investors may encounter resistance in trimming a project's work force to an efficient level. A further complication in business arrangements is the Ukrainian enterprise's continuing responsibility for housing and much of the other social infrastructure sustaining their workers. This social burden can become a real issue in business negotiations.

Ukraine's industrial inheritance from the former Soviet Union, particularly its military-industrial complex, has produced excellent specialists, engineers, and programmers. However, these specialties rarely were commercialized in the Soviet command economy, leaving many Ukrainians poorly equipped for the demands of dynamic, information-based commerce. Homo Sovieticus, or Soviet man, has left a distinct impression on Ukraine's working-age population. The Soviet command-administrative system discouraged creativity and entrepreneurial spirit, inhibiting the growth of business in Ukraine. Ukrainian workers, in the blue-collar and white-collar sectors, more often than not respond to "top-down" management practices. Indeed, one of Ukraine's most important goals will be to re-train entire generations of its workers in order to compete in the fast-paced world of high-technology production and modern management methods and practices.

H. Efficiency of Capital Markets and Portfolio Investment

Legal, regulatory, and accounting systems are not transparent enough and are not fully consistent with international norms. The reform process is advancing in these areas, especially in the banking sector; but, such systems in Ukraine remain underdeveloped. Ukraine has not generally adopted international accounting standards outside of the banking sector, requiring many foreign investors to keep double entry books, one entry with Ukrainian accounting standards and one entry following international standards for use by the parent company. Parliament did pass the first reading of the "Law on Accounting and Financial Accountability" in June 1999, but it is not expected to come into effect this year. Accounting firms expect that producing two different sets of accounts will still be necessary after the law is passed, although the differences between the two should be less. The day-to-day working of the security market lags behind international standards and also behind the progress achieved in the Ukrainian banking sector.

In June 1991, the Parliament of the then Ukrainian Soviet Socialist Republic approved a Law on Securities and the Stock Market, which marked the birth of a Ukrainian capital market. The Law outlined the existence of the following types of securities: stocks (registered, bearer, preferred, and common), government securities, general obligations/bonds, corporate bonds, savings certificates, and promissory notes. Later decrees and amendments adopted from 1991 to 1995 added bond coupons, loan certificates, bank orders, savings books, and privatization certificates. In June 1995 the State Securities and Stock Market Commission was established, having administrative and disciplinary powers over issuers, investment funds, brokers and trading activities. A law on a depository system, regulating financial infrastructure and trading institutions was added in December 1997.

Almost 95 percent of the reported secondary market activity is conducted through the nationwide electronic trading system for the self-regulatory

organization or "PFTS" (The Ukrainian Broker/Dealer Association and Over-the-Counter Trading System). Other markets exist, including the Ukrainian Stock Exchange, the Donetsk Exchange and the Crimean Stock Exchange, but most trading (about 75 percent) is not reported to any licensed market (PFTS or exchange). Ukraine's stock market was negatively impacted by the Russian financial crisis in 1998, experiencing sharp declines in trading volumes and overall market capitalization. Investors continue to face numerous problems, including low market confidence, incompatible accounting standards, lack of accurate company information, and inadequate protection of minority shareholders' rights. To date, an effective portfolio investment regulatory system has not been established. USAID was involved with the creation of a law on collective investments, which is awaiting its first reading in Parliament.

The Ukrainian banking sector is in the early stages of development. Nevertheless, in contrast to many other sectors of the Ukrainian economy, there has been real progress in structural reform over the last several years. Development of sound market-oriented banking system has been an important area of emphasis of international assistance, including from the U.S. As of April 1999, there were 211 banks registered in Ukraine. The National Bank of Ukraine (NBU) has both the supervisory and monetary powers of a central bank.

All Ukrainian banks formally converted to international accounting standards on January 1, 1998. The National Bank has passed a number of new regulations, such as loan-loss provisioning, loan classification and lending to insiders and related parties, which are in line with Western practice. Foreign licensed banks may carry out all the same activities as domestic banks and there is no ceiling on their participation in the banking system.

However, there are also important deficiencies. The legal infrastructure is sadly deficient. For several years, the parliament has held up passage of vital laws that would give the National Bank the authority it needs to deal with banks in trouble. In fact, NBU Governor Viktor Yushchenko complained that a new Law On the National Bank of Ukraine, passed in spring 1999, strips the NBU of the right and means to punish banks for not meeting mandatory reserve requirements. Given the tenuous economic environment and the still continuing directed lending by banks at the government's behest, there is a large overhang of problem loans. For some of the larger banks in Ukraine, the problem is acute. The National Bank, together with the IMF, has identified a group of the largest seven banks in the country as a primary source of systemic risk. Together with 35 foreign bank inspectors (from eight countries, including the U.S.), full-scope supervisory exams were completed at the end of 1998. The National Bank has signed agreements with each of these banks on measures to rectify identified weaknesses. Now, together with foreign technical assistance, a two-year upgrading is starting for this group of largest banks.

Problems still persist. Although a number of measures were introduced to make it easier to identify bad loans and avoid possible crises, many banks still have a large number of bad loans. They continue to lack sufficient resources to provide credit, and so are not a major source of investment funds. Loans that are made are short-term and at high interest.

Ukrainian financial markets do not seem to have such complex "cross-shareholding" and "stable shareholder" arrangements as are found in Asian markets. However, foreign investment through mergers and acquisitions is restricted in Ukraine, but for other reasons such as underdeveloped legislation and unfair treatment toward minority shareholders by company insiders.

The lack of rights extended to minority shareholders creates obstacles in attempting to change ownership. Examples of shareholder rights abuses include the following: limited disclosure, capital restructuring without shareholders' consent, and voting fraud.

Ukraine continues to remain a cash economy, but a few banks have started issuing credit cards (Visa and MasterCard) and a number of local businesses have begun accepting credit cards. In addition, a number of automatic teller machines have appeared throughout the country.

I. Conversion and Transfer Policies

The April 1996 foreign investment law guarantees foreign investors the "unhindered transfer" of profits, revenues, and other proceeds in foreign currency after covering taxes and other mandatory payments. Ukraine's new currency, the hryvnia, was introduced in 1996 and is traded in Ukraine against the U.S. dollar and other currencies at a rate of roughly four hryvnia to the dollar, as of June 1999. The hryvnia had stayed within the 1.95-2.25 UAH/dollar range before the 1998 financial crisis. Since the beginning of 1999, the value of the hryvnia has fallen about 13 percent and was expected to continue its gradual depreciation during the year.

There are currently no limitations on the frequency of repatriation of earnings. In general, foreign exchange is rapidly available at market-determined rates, and investors can convert their earnings into foreign currency through commercial bank, which purchases foreign currency for the investor at the Interbank market. Commercial banks can trade foreign currency between each other or participate in electronic currency trading at the Ukrainian Interbank Currency Exchange (UICEX). Due to the August 1998 financial crisis, the National Bank of Ukraine (NBU) put into place a number of capital controls. Investors should be aware that such regulations change regularly and the NBU is often forced to protect thin foreign currency reserves. However, since this spring there has been a liberalizing of the foreign exchange market and the Embassy purchases local currency at the commercial rate from a variety of local commercial banks.

J. Expropriation and Compensation

Since gaining its independence in 1991, the government of Ukraine has not engaged in any known acts of expropriation of foreign investments or property. Under the 1996 law on foreign investment, a qualified foreign investor is provided guarantees against nationalization, except in cases of national emergencies, accidents, or epidemics. Insufficient time has passed to judge the adequacy of this law in cases where compensation was due. However, some incidents with foreign investors have caused concern. For example, in one case, after the government reorganized the state Television and Broadcasting Company, the successor television company unilaterally abrogated a 10-year

contract with its U.S. business partner. In another case, the government reorganized a state-owned agricultural company shortly after an American investor received an arbitration award against it. The assets were transferred to a newly established entity, and the state-owned company went bankrupt.

K. Dispute Settlement, Including Enforcement of Foreign Arbitral Awards

As the number of foreign investments has grown, so too has the incidence of disputes. The Embassy has been involved in numerous advocacy cases on behalf of American investors who have been the victims of a variety of abuses, including overzealous tax collection, sudden and drastic tariff hikes, abrogation of valid contracts and licenses, and outright corruption.

At the heart of the current disputes is the lack of transparency in Ukraine's business environment, the problem of authority (or lack thereof), and non-implementation of court decisions. Ukrainian laws and regulations are vague and open to considerable leeway in interpretation, providing ample corruption opportunities for officials at every bureaucratic layer. Xenophobic attitudes, especially at the regional level, also play a role as foreign investors are all too often seen as competitors of local firms and their government "sponsors."

The Embassy and U.S. businesses recognize that key high-level Ukrainian government officials in Kyiv are aware of the problems and are sensitive to the needs of foreign companies. The difficulty lies in the relative independence of action of the middle levels of the bureaucracy. There are simply too many officials, both in the various layers of government and at the enterprise level, who have a strong, vested interest in the status quo.

In the early days of independence, many foreign investors became mired in a common type of investment dispute. In these cases, American firms that operated for several years in joint ventures with a Ukrainian firm experienced difficulties once the JV started to show a profit. After it became clear that the firm had established itself on the Ukrainian market, the Ukrainian partner attempted -- through various illegal or semi-legal means -- to force out the American partner. The Ukrainian partner continued operations using the JV company name, product brand names, logo, and other intellectual property, sometimes resorting to threats of physical violence toward the former partner if the partner did not "go away." The number of such cases reported to the Embassy has declined recently, although other embassies in Ukraine continue to report that some of their investors have had similar experiences.

In February 1994, Ukraine enacted an international commercial arbitration law. The law parallels commercial arbitration laws set forth by the United Nations Commission on International Trade Law and is therefore in accordance with international standards. The law covers a wide range of international commercial transactions, reflects the principles of equality and fair treatment of parties, provides for a supportive relationship between the courts and arbitration tribunals, and includes basic provisions for the functioning of arbitration proceedings where the parties themselves have not made necessary provisions. According to Ukraine's law on foreign investment, disputes between U.S. investors and the state are to be considered by

Ukrainian courts of arbitration. Ukraine is also a member of the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. Some parties have been able to enforce foreign arbitration awards in Ukraine, although there has not been universal success.

The draft Civil Code is being readied for its second reading in parliament. The Civil Code is of fundamental importance, governing all commercial relationships in Ukraine. A special committee of the Parliament, headed by Deputy Speaker Victor Medvechuk, has been established to prepare the draft Civil Code for its second reading. The current bankruptcy law was enacted in 1992 and provides for the liquidation of enterprises. A revised law on bankruptcy, providing for debtor-led financial restructuring and reorganization as well as tax forgiveness, is being prepared for its second reading in parliament. The revised bankruptcy law goes well beyond current law and will be considered one of the most progressive bankruptcy laws in the former Soviet Union if enacted.

Unfortunately, in spite of the positive formal character of these laws and measures, dispute settlement remains weak in Ukraine. Most U.S. businesses avoid the court system because the local and national court systems are burdensome and highly unpredictable. Some investors have reported instances in which the Ukrainian judicial system appeared subject to considerable political interference and/or suffered from corruption and inefficiency. Even when firms receive favorable rulings from Ukrainian courts, the country's judicial system lacks the mechanism necessary to enforce court judgments in their favor. As was reported in the U.S. State Department's 1998 report on human rights, the authority and independence of Ukraine's judicial system are "undermined by the poor record of compliance with court decisions in civil cases." One partially successful method used for the settlement of investment disputes has been Embassy appeal for intervention at the highest levels of government -- clearly not a viable long-term solution.

L. Political Violence

Political demonstrations and disagreements in Ukraine rarely involve violence and are generally resolved peacefully.

M. Bilateral Investment Agreements

The Bilateral Investment Treaty between the United States and Ukraine entered into force on November 16, 1996. The following countries have also signed bilateral investment agreements with Ukraine: Canada (1994), France (1994), Germany (1993), Italy (1993), Bulgaria (1994), the Czech Republic (1994), Hungary (1995), Poland (1993), Slovakia (1994), Armenia (1994), Estonia (1995), Georgia (1995), Kazakhstan (1994), Kyrgyzstan (1993), Lithuania (1994), Moldova (1995), Uzbekistan (1993), the People's Republic of China (1992), Cuba (1995), Egypt (1992), Greece (1994), Israel (1995), and Mongolia (1992). The agreement with China has a five-year term. All of the others have a term of ten or more years. Ukraine has also entered into bilateral treaties with Azerbaijan, Belarus, Russia, and Turkmenistan. These treaties cover customs duties, but not VAT or excise tax, with the exception of the treaty with Belarus. In December 1997, Russia and Ukraine agreed to a mutual exemption on value-added tax. Ukrainian exports to Russia were expected to increase 20-25 percent as a result.

N. OPIC and Other Investment Insurance Programs

Overseas Private Investment Corporation:

The Overseas Private Investment Corporation (OPIC) currently provides financing for projects in Ukraine and offers insurance to U.S. investors against the risks of expropriation and political violence in Ukraine. The U.S.-Ukraine OPIC Agreement was signed in Washington on May 6, 1992. Since January 1994, OPIC has approved investment insurance totaling more than \$ 133 million for seven projects in Ukraine.

Export-Import Bank:

The U.S. Export-Import Bank is operating in Ukraine. In spring 1992, the Export-Import Bank reached an agreement with the Export-Import Bank of Ukraine to support transactions involving the export of U.S. goods to Ukraine. Since then, the Export-Import Bank has financed U.S. exports of agricultural machinery to Ukraine.

Multilateral Investment Guarantee Agency:

The Multilateral Investment Guarantee Agency (MIGA) is an independent member of the World Bank Group, which provides guarantees against political risk to foreign investors in connection with new investment in developing member countries. Forms of investment which can be covered by MIGA include equity, loans, loan guarantees, and loans made by financial institutions (as long as MIGA is also insuring part of the foreign equity in the project enterprise). Certain non-equity direct investments may also be eligible, such as technical and management contracts and franchising and licensing agreements.

O. Capital Outflow Policy

It is estimated that \$10-20 billion of Ukrainian capital has been hidden abroad since 1991. Ukraine's investment policy has been heavily focused on capital inflow - attracting foreign investment and recapturing Ukrainian capital currently banked abroad.

P. Major Foreign Investors

As of June 1999, major foreign investments made in Ukraine were channeled into: (a) telecommunications - Utel (a long-distance and international telephone services joint venture with foreign shareholders AT&T (USA), PTT Telecom (Netherlands), and Deutsche Bundespost Telecom (Germany)) and the UMC joint venture (with contributions from PTT Telecom, Deutsche Bundespost Telecom, and Telecom Denmark (Denmark)); (b) tobacco - R.J. Reynolds, Philip Morris, and Reemstma; (c) soft drinks - Coca-Cola and PepsiCo; (d) food processing - Cargill, Kraft Jacobs Suchard; (e) consumer goods - Procter & Gamble; (f) detergents - SC Johnson; (g) electric power - ABB (Swiss-Swedish-US), Westinghouse-Siemens (Germany, USA), Northland Power (Canada); (h) oil & gas - JV Poltava Petroleum Company (JKX Oil & Gas (UK)), JV Eurogas Ukraine (Eurogas (USA), RWE-DEA (Germany)), USENCO (USA), JV UkrCarpatOil (Carpatsky Petroleum Corp. (USA)); (i) agribusiness - Cargill Ukraine; and (j) fast food - McDonald's.

Chapter VIII: Trade and Project Financing

A. Brief Description of the Banking System

The Ukrainian banking system consists of the central bank - the National Bank of Ukraine (NBU), and commercial banks of various classifications. The NBU is responsible for monetary circulation, registration of commercial banks and oversight of their activities, and sometimes intervenes in the currency market to moderate changes in the exchange rate. As of January 1, 1999, there were 221 banks registered in Ukraine, 170 of which were actually operating.

Five banks in Ukraine, which were state banks during the Soviet era, currently hold much of total banking capital: Prominvest (construction and capital investments); Bank Ukrayina (agriculture); Ukrsotsbank (the social sphere); Ukreximbank (export-import operations); and Oshchadbank (general population savings). These banks remain dominant in serving government programs in their respective sectors. Today, only Ukreximbank and Oshchadbank remain state banks, the others having been privatized. Recently the state-run Oshchadbank has been reorganized into an open joint stock company, with the state retaining all 100 percent of its stock. In early June 1999, the State Commission for Securities and Stock Exchange registered information on the issue of Oshchadbank's stock. Bank Ukrayina, after its default on UAH 115 million worth of client commissions in late 1998, is under a rehabilitation program that is to last until 2003.

Some of the larger commercial banks founded by Ukrainian enterprises and entrepreneurs without state money are: Privatbank (Dnipropetrovsk), Aval, Ukrinbank, Pravex-bank, VA Bank (Kyiv), Ukrsibbank (Kharkiv), and Sloviansky (Zaporizhzhya).

Problems common to all commercial banks include unstable macroeconomic conditions and thus a high level of interest rates reflecting a substantial risk premium.

However, there are positive trends in the development of the Ukrainian banking sphere. Effective May 24, 1999, the National Bank lowered the discount rate for the third time from 50% to 45%, and lowered the Lombard rate from 55% to 50%. Despite the fact that the reduction of rates has only marginally influenced the banking sector, this trend will undoubtedly stimulate the banks to increase their credit activity in the medium term.

Ukraine's payment system is very reliable. After five years of use, the Electronic Payments System (EPS) has shown that it fulfills all the requirements for a national system of interbank payments. The average duration to complete payment is from ten minutes to two hours.

Banking is the first sector in Ukraine that transferred to International Accounting Standards (IAS). Since January 1, 1999, banks are required to present their reports according to IAS. These standards have the potential to improve the entire banking sector by forcing banks to be more transparent.

Another positive development is the adoption by the NBU of many new

regulations that are consistent with Western-based banking, such as restrictions on loans to single borrowers and to owners.

The NBU has raised requirements concerning the liquidity of commercial banks and the amount of statutory capital (at least ECU 1.0 million). This banking supervision reform allows for the creation of an effective monitoring system to oversee the activities of commercial banks, making it possible to identify problems of individual banks for the NBU to react to promptly. In February 1998, the NBU Board approved a bank supervision development strategy for 1998-2000; this strategy provides for measures to create a regulatory framework for banking supervision.

The Ukrainian government eased restrictions on foreign banks and has one of the more liberal policies towards foreign banks in the region. Therefore, several have recently entered Ukraine, including Creditanstalt Austria, ING Barings, Rafeissenbank, and Citibank. The European Bank for Reconstruction and Development (EBRD) has made several investments in the banking industry. Credit Lyonnais Ukraine (France), registered in 1993, is now listed as the country's 10th-largest bank. Among the largest banks with foreign capital (or having 100% foreign capital) are: Societe General Ukraine, Credit Suisse First Boston (Ukraine), the First Ukrainian International Bank (Donetsk), Electronbank (L'viv) and Inkombank (Kyiv).

There are few market entry barriers in the banking sector. Foreign-owned banks are required to open a resident office one year before applying for a banking license. The minimum authorized statutory fund is ECU 10 million, a small sum by international standards. In April 1998, the NBU abolished the 15% limit on foreign investment in domestic banks, further blurring the line between local and foreign investment. The NBU does require that the currency share of authorized capital of foreign banks be converted into local currency. Most foreign operations serve multinational subsidiaries and joint ventures by extending short and medium-term credit and assisting in export transactions.

B. Foreign Exchange Controls

In March 1993, the government of Ukraine issued three decrees concerning currency regulation in Ukraine. Additionally, the NBU has issued a series of instructions and regulations.

Current legislation stipulates that Ukrainian currency is the only legal form of payment on the territory of Ukraine, which may be accepted without limitation for the settlement of debts and obligations. Currency decrees stipulate that individual licenses have to be obtained from the NBU to carry out the following operations:

- i) use of hard currency on the territory of Ukraine as a form of security;
- ii) a resident of Ukraine opening a bank account abroad;
- iii) a resident making an investment abroad, except in the event of inheritance, the acquisition of shares, or an ownership interest by a resident in a non-Ukrainian legal entity;
- iv) obtaining or granting of loans in hard currency by a resident of Ukraine, if the amount of the loan is in excess of the minimum levels established by the NBU;

- v) making hard currency payments abroad from Ukraine (except instances listed in the following paragraph).

Individual licenses are not required for the following transactions:

- i) payments abroad in hard currency, which are carried out by residents in order to fulfill obligations in such currency to non-residents in connection with payment for goods, services, intellectual property rights, and other property rights;
- ii) payments abroad in hard currency made in the form of interest payments on loans and profits from foreign investments;
- iii) transfer, upon the termination of investment activities, of hard currency from Ukraine, which had been previously invested in Ukraine.

As of August 1, 1998, the use of foreign currency for cash payments on the territory of Ukraine is prohibited.

Currently, the official exchange rate, auction rate, and "street" rate fluctuate at similar levels. According to the Foreign Investment Law, the exchange rate for converting foreign investments into Ukrainian currency is the rate established by the NBU.

A. General Financing Availability

Credit availability in the private sector is scarce, as commercial banks remain risk-averse; the spreads between lending and deposit rates are high and loans are mainly short-term. Effective on May 24, 1999, the NBU lowered the discount rate from 50% to 45%. The reduction of rates has only marginally influenced the banking sector, but this trend will undoubtedly stimulate banks to increase their medium-term credit activity. The majority of commercial bank loans are for 90 days or less, with most terms being 30 days or less. This precludes loans from Ukrainian commercial banks for virtually any transaction - a major problem affecting a wide range of business in Ukraine. Starting on July 1, 1999, the National Bank lifted all restrictions on the prepayment of import contracts. Earlier, advance payment on import contracts could not exceed \$ 100,000. This resolution was adopted in pursuance with the IMF's requirement to further liberalize the currency market. As a result of this measure, imports to Ukraine are expected to increase, inevitably intensifying competition between domestic and foreign producers.

B. How to Finance Exports/Method of Payment

Ukraine has adhered to a number of international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit, and collection arrangements. The safest method of receiving payment for a U.S. export is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank has to be authorized by the NBU. Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

C. Types of Export Financing and Insurance Available

1. The **Bankers' Association for Foreign Trade (BAFT)** is an association of banking institutions dedicated to fostering and promoting

American exports, international trade, finance, and investment between the U.S. and its trading partners. BAFT's access to the Export Capital Program (AXCAP) has greatly strengthened BAFT's commitment to American exports. AXCAP serves as a "national catalog" listing banks and other companies involved in trade finance and trade finance services. For further information, contact:

Bankers' Association for Foreign Trade
2121 K Street, N.W., Suite 701, Washington, DC 20037
Tel: (202) 452-0952; Fax: (202) 452-0959
E-mail: baft@baft.org
<http://www.baft.org>

2. The **Export-Import Bank of the United States (Ex-Im Bank)**, an independent U.S. Government agency, helps to finance the overseas sale of U.S. foods and services. Ex-Im Bank programs for Ukraine include short-term and medium-term coverage for sovereign risk transactions. Under its short and medium-term programs, Ex-Im Bank requires an indication of host government support before accepting an application. In late spring 1996, the Export-Import Bank approved the guarantee of a \$171 million loan from Societe Generale for the sale of John Deere agricultural equipment to Ukraine. This was the Ukrainian government's first request for Ex-Im Bank guarantees since the Bank reopened its programs in Ukraine in May 1995. For further information, contact:

Ex-Im Bank
811 Vermont Ave., N.W., Washington, DC 20571
Tel: (800) 565-3946; Fax: (202) 565-3380
<http://www.exim.gov>

3. **Overseas Private Investment Corporation (OPIC)**

The Overseas Private Investment Corporation (OPIC) is an independent, self-sustaining U.S. Government agency that encourages private sector U.S. investment overseas by providing investment finance and insurance to American businesses large and small making long-term investments. OPIC has provided more than \$3.5 billion in combined project financing and political risk insurance to U.S. companies sponsoring projects in Armenia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan.

The U.S.-Ukraine OPIC Agreement was signed in Washington on May 6, 1992. The Agreement enables the U.S. to provide investment insurance, project financing, and various investor services to private U.S. investors for sound business projects in Ukraine. Since the signing, OPIC has lead several investment missions to Ukraine and hosted several reverse investment missions by Ukrainian business representatives to the United States.

OPIC risk insurance and financing programs are also available to U.S. investors in Ukraine. OPIC has also facilitated conferences and exchanges between the two countries to increase business relations.

Key contacts are:

James Gale, Investment Development Manager
Overseas Private Investment Corporation
1100 New York Ave.

Washington, DC 20527-0001
Tel: (202) 336-8628; Fax: (202) 408-5145
<http://www.opic.gov>
E-mail: info@opic.gov

LaWana Gray, Information Officer
Tel: (202) 336-8663

4. The **U.S. Small Business Administration (SBA)** does not have a specific program designed for the NIS, but all qualified U.S. companies doing business in the region may apply for SBA financing. SBA guarantee program include the Regular Business Loan Guarantee Program, which provides loan guarantees to small business for fixed assets and working capital; and the Export Revolving Line of Credit Program, through which a business can receive a government-guaranteed loan to finance labor and materials for manufacturing or wholesaling, developing foreign markets, financing foreign accounts receivable and, in some cases, business travel and trade show participation. The International Trade Loan Program provides long-term, fixed-asset financing and short-term working capital to purchase or upgrade facilities or equipment and to make other improvements within the U.S. for the production of foods and services. For further information, contact:

Small Business Administration
409 3rd St, S.W., Washington, DC 20416
Tel: (800) 827-5722; Fax: (202) 205-7064
<http://www.sba.gov>

D. Types of Project Financing Available

1. The **European Bank for Reconstruction and Development (EBRD)** established an office in Kyiv in 1993. At the end of 1998, the EBRD's total commitments in Ukraine reached over \$600 million, covering all major sectors of Ukraine's economy - agriculture, energy, transportation, communication, financial services, oil and gas exploration, and manufacturing. Approximately 55% of the EBRD's commitments went to the private sector, while 45% went to the public sector. (See section G for EBRD projects.)

To contact the Senior Commercial Officer in the U.S. EBRD Office with project proposals and inquiries:

Gene Harris, Office of the U.S. Director
European Bank for Reconstruction and Development
One Exchange Square, London EC2A 2EH
Tel: (44-171) 588-4027, 588-4028
Fax: (44-171) 588-4026
E-mail: Gene.Harris@mail.doc.gov
<http://www.ebrd.com>

For information on the procurement process, contact the Procurement Unit at:

Tel: (44-171) 338-6534; Fax: (44-171) 338-7472
<http://www.ebrd.com/english/procure/index.htm>

For general information on the EBRD and other Multilateral Development Banks, contact:

Janet Thomas, Acting Director
U.S. Department of Commerce
Ronald Reagan Building, Mezzanine Level
Washington, DC 20230
Tel: (202) 482-3399; Fax: (202) 482-3914

(Ukraine contact information may be found in Appendix E.)

2. The **World Bank** - Ukraine joined the World Bank in September 1992, with the first loan of \$27 million for an institutional building project approved in June 1993. Since then, the Bank's program in Ukraine has been steadily expanding, and its commitments to date exceed \$ 2.2 billion. For more information contact:

World Bank Headquarters
1818 H Street NW, Washington, DC 20433
Tel: (202) 477-1234; Fax: (202) 477-6391
<http://www.worldbank.org>

(Ukraine contact information may be found in Appendix E.)

3. The **International Finance Corporation (IFC)** is a member of the World Bank Group, a family of multilateral development institutions owned by and accountable to member governments around the world. The IFC was established in 1956 with a mandate to assist in the building and strengthening of the private sector in developing countries and in countries with transitional economies. Currently, IFC is working on three technical assistance projects in Ukraine. With funding from USAID, IFC has been working on small-scale privatization in Ukraine since 1992. With funding from the British Know-How Fund, IFC began a pilot project in October 1994 for post-privatization support in Luhansk. IFC has assisted in the establishment of post-privatization support offices in the cities of Luhansk, Mariupol, Khmelnytskyi, and Cherkasy. In May 1995, again with funding from the British Know-How Fund, IFC began a pilot project for the preparation of large enterprises for voucher privatization in the Kharkiv oblast. For further information, contact:

International Finance Corporation
212 Pennsylvania Ave., N.W., Washington, DC 20433
Tel: (202) 477-1234; Fax: (202) 974-4384
<http://www.ifc.org>

(Ukraine contact information may be found in Appendix E.)

4. The **U.S. Trade and Development Agency (TDA)** offers U.S. businesses a variety of tools to help increase American exports in the face of stiff international competition. Through the funding of feasibility studies, orientation visits, specialized training grants, and various forms of technical assistance, TDA enables American businesses to become involved in the planning stage of infrastructure and industrial projects in middle-income and developing countries. TDA's assistance to the NIS has focused on the

funding of feasibility studies, particularly those that create long-term cooperative relationships between U.S. firms and their NIS counterparts. Since 1991, TDA has approved funding for about \$75 million for feasibility studies in almost 200 major projects in the NIS. Exports of U.S. goods and services related to those projects already total more than \$600 million. For further information, contact:

Daniel Stein, Regional Director
KelleyAnn Szalkowski, Country Manager
U.S. Trade and Development Agency
1621 North Kent St., Suite 200
Arlington, VA 22209-2131
Tel: (703) 875-4357; Fax: (703) 875-4009
E-mail: info@tda.gov
<http://www.tda.gov>

5. The **Renewable Energy Pre-Investment Support (REPS) Fund**, supported by USAID and the U.S. Export Council for Renewable Energy, provides pre-investment support for projects in renewable energy, including biomass, hydro, solar, wind, and geothermal. REPS, managed by Winrock International, assists project developers by providing up to 50% of the cost of a feasibility study, or feasibility study costs as a reimbursable grant.

Winrock International
1611 N. Kent Street, Suite 600
Arlington, VA 22209
Tel: (703) 525-9430; Fax: (703) 243-1175

Winrock International
c/o Institute of Agrarian Sciences
10 Heroiv Oborony Vul., Kyiv 252127, Ukraine
Tel: (380-44) 261-3217; Fax: (380-44) 266-0539

6. The **Western NIS Enterprise Fund**, capitalized with \$150 million by the U.S. Government, has been fully operational in Ukraine, Belarus, and Moldova since June 1995. The Fund provides equity capital and loans in amounts between \$500,000 and \$5 million to small and medium-sized private companies involved in food processing, distribution, construction materials, and other light manufacturing industries. The Small Business Loan Fund, a separate fund managed by Western NIS, makes commercial loans under \$100,000 to small businesses and entrepreneurs. The Fund has committed over \$30 million since September 1996.

Scott A. Carlson, President & CEO
Western NIS Enterprise Fund
15 West 39th Street, 11th Floor, New York, NY 10018
Tel: (212) 556-9320; Fax: (212) 556-9321

Natalie A. Jaresko
Regina Business Center
4 Muzeyny Provulok, 3rd Floor, Kyiv 252001, Ukraine
Tel: (380-44) 247-5580; Fax: (380-44) 291-5589

7. The **Eurasia Foundation**, a privately-managed, grant-making organization established with financing from USAID, supports technical assistance, training, education, and policy programs. The Eurasia Foundation also awards grants to American organizations with partners in the NIS and directly to NIS organizations involved in projects that promote economic and democratic reform. In 1998, Eurasia issued \$2.5 million in grants to 200 Ukrainian NGO's in business development, education, and management training; economic education and research; electronic communications; media; NGO development; public administration; and rule of law.

1350 Connecticut Ave., N.W., Suite 1000
Washington, DC 20036
Tel: (202) 234-7370; Fax: (202) 234-7377
<http://www.eurasia.org>

Marie F. Sotck, Director
Western NIS Regional Office
26, Lesi Ukrainki Vul., #506, Kyiv 252133, Ukraine
Tel/Fax: (380-44) 295-1065, 295-7402
E-mail: eurasia@eurasia.freenet.kiev.ua

Small-Business Loan Program
26, Lesi Ukrainki Vul., #506, Kyiv 252133, Ukraine
Tel/Fax: (380-44) 294-8209
E-mail: sblp@efsbllp.freenet.kiev.ua

8. The **Ukraine Fund** makes equity investments in small and medium-sized existing private businesses and joint ventures. Investments range from an average of \$250,000 up to \$1.5 million for portfolio investment over a period of time. The Ukraine Fund has invested \$7 million in 23 projects involving companies producing for the Ukrainian market, in such sectors as real estate, building materials, and food processing and distribution.

Jerry Bird, Vice President
Claflin Capital Management, Inc.
77 Franklin Street, Boston, MA 02110
Tel: (617) 426-6505; Fax: (617) 482-0016

Valeriy Schekaturov
Ukraine Fund
26, Pushkinskaya Vul. Apt.26, Kyiv 252004, Ukraine
Tel: (380-44) 228-0916, 228-6216
Fax: (380-44) 228-0916

9. The **Defense Enterprise Fund** makes debt or equity investments in joint ventures between U.S. and NIS firms specializing in the process of defense conversion. The Fund may provide loans or make investments in qualified joint ventures, which include personnel and facilities formerly involved in research, development, production, or operation of the defense sector.
Contact:

Defense Enterprise Fund
6630 West Broad Street, Suite 100
Richmond, VA 23230-1702

Tel: (804) 673-6230; Fax: (804) 281-0708
E-mail: Mblake@gpventures.com
<http://www.gpventures.com/aboutdef.htm>

E. Types of Projects Receiving Financing Support

European Bank for Reconstruction and Development (EBRD) Projects:

As of May 31, 1999, the European Bank for Reconstruction and Development (EBRD) had signed 28 projects in Ukraine totaling ECU 721 million, of which 22 were in the private sector. Investment have been made in a broad range of sectors, including food processing, the financial sector, oil and gas extraction, transportation, agricultural services, telecommunications and port facilities, as well as tourism and logistics. The EBRD is also making increased use of technical cooperation to promote project development and to provide support for enterprise restructuring, institutional strengthening and post privatization.

Total committed technical cooperation expenditure for Ukraine at the end of December 1998 amounted to more than ECU 27.9 million. The EBRD acts as administrator of the Chornobyl Shelter Fund, which was established in December 1997 to help Ukraine transform the existing Chornobyl sarcophagus into a safe and environmentally stable system. The Chornobyl Shelter Implementation Plan (SIP) is being carried out under the Fund, which is administered by the EBRD on behalf of the G8 and other contributing countries. A dedicated project team within the Bank is managing the SIP. The EBRD role will be very similar to that already undertaken for the last six years as administrator of the Nuclear Safety Account (NSA) and will follow similar procedures.

The Bank's key main operational objectives are as follows:

- support of private sector development through credit lines and equity funding for SMEs, and through direct financing of both joint venture and local private companies;
- support for privatisation by providing financing and technical services for the most promising newly privatised enterprises;
- support for the strengthening of the financial sector;
- promotion of private investment in agricultural sector development;
- rationalisation of the energy sector;
- rehabilitation and reform of key infrastructure sectors.

Signed private sector EBRD projects as of May 31, 1999 include:

Radisson SAS Kyiv

In December 1998, the EBRD provided financing to support the construction by Radisson SAS of the first international class hotel in Kyiv. The project involves the development, construction and operation of a 244 room international-standard four-star business hotel, which will be the first fully privately financed, newly built hotel in Ukraine. EBRD financing consists of an equity investment of ECU 6.2 million and a loan of ECU 7.4 million. The total operation cost is ECU 39.5 million.

AD-Zarya

In February 1998, the EBRD made a \$ 12.4 million equity investment in AD-Zarya to complete its world-class glass container production plant. An energy-efficient and environmentally friendly facility will be established, using modern technology and operating according to competitive market principles. The project will help to develop Ukraine's food processing and beverage industries.

Obolon

Ukraine's first privatized brewery, Obolon, signed a \$ 40 million loan in December 1997 with the EBRD. The funds will be used to modernize its operations, increase its production capacity and install a financial accounting system to provide reports according to International Accounting Standards.

Ukrainian Wave

With a two-tranche \$ 15 million loan from the EBRD, Ukrainian Wave, a joint venture company, will be able to install and operate a digital, wireless network, which will accommodate the immediate telecommunication needs of both businesses and residents in the city and in the region of L'viv. The loan agreement was signed in December 1997.

Svitoch Confectionery

Ukraine's first privatized confectionery company, Svitoch, received a \$ 8 million loan in April 1997 to help modernize its operations. The funds will be used to purchase new production lines, install a financial accounting system to provide reports according to International Accounting Standards and implement "Svitoch 2000", a major program to improve efficiency and organization of the company.

Iveco-Kraz commercial vehicle manufacturer

In November 1995, the EBRD agreed to invest \$ 18 million in Iveco-Kraz, a joint venture between Iveco SpA (Iveco), Italy's leading commercial vehicle manufacturer and part of the FIAT Group, and AvtoKraz (Kraz), Ukraine's largest truck manufacturer. The EBRD's commitment represents a 30 per cent share, while Iveco and Kraz hold 58 per cent and 12 per cent, respectively. The EBRD's investment is being used to finance new equipment and working capital. Iveco-Kraz manufactures and distributes in Ukraine light and medium-sized commercial vehicles produced at the Kremenchuk plant.

Ukrshipping (subsidiary of Ukrrichflot)

In September 1995, the EBRD's Board approved the partial funding of the acquisition of five new river-sea vessels by Ukrrichflot's subsidiary, Ukrshipping. The EBRD is the lender of a record \$ 16.5 million loan to Ukraine's first private shipping company. The loan is co-financed on a 50/50 basis by the Bank of Scotland. The 3,500 DWT general cargo ships are being built at Romania's Oltenitsa shipyard and will help Ukrrichflot become more competitive in the international market by modernizing its fleet. There is no state guarantee to back the financing. This EBRD deal is the first loan in any Ukrainian sector between Western financial institutions and a private indigenous enterprise.

Kyiv International Bank

Kyiv International Bank (KIB) is a newly created investment bank focusing on long-term funding for medium-sized private firms, providing a full range of

commercial banking and corporate finance services. In August 1995, the EBRD made an equity investment of EUR 1.75 million in KIB for a 35 per cent share.

Capital increase in Kyiv International Bank, Ukraine

A EUR 1.75 million investment was made to maintain the Bank's 35 percent participation in KIB's capital. In order to comply with the capital requirements of the bank as to the majority owned by foreign shareholders, KIB has to increase its capital to EUR 10 million (from EUR 5 million). KIB will issue 1,000 new ordinary shares, to be proportionally subscribed by the EBRD and Rabobank.

FUIB credit facility and FUIB equity investment

In August 1995, the EBRD granted credit of \$ 13 million to First Ukrainian International Bank (FUIB), a leading private commercial bank. This financing has allowed FUIB to expand its medium-term lending to private sector Ukrainian enterprises for projects satisfying specific lending criteria. Customers are mostly private enterprises, although state-owned enterprises currently in the process of being privatized are also eligible. This is the EBRD's first direct bank-to-bank credit line in Ukraine, and complements the SME credit line. FUIB equity investment (under MBEFF - share purchase) is EUR 8.57 million.

Dnipropetrovsk Oil Extraction Plant I and II

Financing is being provided for the purchase of raw materials necessary to produce 45,000 metric tons of refined edible sunflower oil per year in Dnipropetrovsk, Ukraine. This project modifies earlier projects signed by the EBRD in December 1995 and September 1997. A three-year revolving credit facility of \$ 35 million replaces the existing \$ 15 million facility. Also, a \$ 8.5 million senior, subordinated debt issue maturing on December 31, 2002 will replace the Bank's \$ 8.5 million existing preference share issue. Loan proceeds from the project will be used for the purchase of sunflower seeds from local producers in Ukraine and refinancing an earlier preferred share issue.

Ukraine Trade Facilitation Program

The Ukraine Trade Facilitation Program (UTFP) is a bank guarantee program of \$ 50 million aimed at a select group of Ukrainian banks. The program will enable these banks to develop and strengthen their trade-related services, and thus increase the availability of such services to Ukrainian companies, which will in turn contribute to the expansion of Ukraine's foreign trade. The credit line was agreed upon in December 1995. Presently, two Ukrainian banks have qualified for credit limits under the UTFP.

Integrated agricultural services

In May 1995, the EBRD granted \$ 3 million in equity and \$ 3.9 million in debt to Kiev-Atlantic Ukraine (KAU), a specially formed joint venture company designed to build and operate a new purpose-built agri-center at Myronivka, south of Kyiv. At the center, farmers should be able to exchange their produce for critical agricultural supplies, allowing them to modernize production methods and increase their output. When completed, the center should provide crop production services, marketing services, and storage and processing facilities. Supplies will range from fertilizers and seeds to veterinary products, farm machinery services and fuel, all in exchange for farm produce. Currently, the project is experiencing some difficulties, which are being reviewed by the company and the EBRD.

Poltava oil and gas extraction

The Poltava Petroleum Company (PPC) is a joint venture between the Ukrainian State Property Fund, Poltava Gasprom and JKC Exploration and Production Ltd. (a British independent oil and gas company). In April 1995, the EBRD granted PPC a loan of \$ 8 million, the Bank's first investment in the Ukrainian energy sector. PPC is undertaking production of the Ignatovskoye oil and gas field in the Novo-Mykolayivskiy complex south of the city of Poltava in central Ukraine. It is the first fully operational oil and gas joint venture in Ukraine. The EBRD financing has been used for the drilling of four new wells, connecting them to an operation and production base, and constructing a pipeline and rail-loading facilities.

SME credit line

In December 1994, the EBRD signed an agreement for a \$ 121.2 million credit line designed to assist private small and medium enterprises (SME's) in Ukraine. The funds are being provided in four tranches to the National Bank of Ukraine (NBU) for on-lending to Ukrainian companies via eligible participating banks. An autonomous Project Monitoring Unit (PMU) was established within the NBU to monitor the credit line. The SME's eligible for financial assistance are those seeking hard currency denominated financing for investment, export/import activities and leasing.

The seven participating banks are benefiting from technical assistance, which provides institutional development programs and strengthens credit assessment skills. The banks participating in the SME Line of Credit represent the best private financial intermediaries in Ukraine in terms of prudential requirements, balance sheet strength, and management quality. The line began disbursing in April 1995. As of the end of 1997, nearly \$ 64 million had been disbursed for 81 SME projects in a broad range of sectors across the country.

Micro and SME credit line (SME II)

In May 1998, the EBRD signed an ECU 80 million credit line to finance micro, small and medium-sized enterprises in Ukraine. The project aims to continue the efforts started under the first line of credit to assist promising Ukrainian private banks in their efforts to become effective financial intermediaries

Ukraine Fund (plus capital increase)

The Ukraine Fund is a venture capital fund established in 1992 with a subscribed capital of \$ 11.8 million, of which the EBRD contributed \$ 3.5 million. The Fund makes equity investments in SME's in Ukraine, including privatized enterprises, with high-quality management and exceptional profit prospects. Most of its capital is used for investments in the production of consumer goods and services for the local market. With a large pipeline of future investments, the Ukraine Fund received a capital increase of \$ 8.5 million from the EBRD, which was signed in December 1995.

Signed public sector EBRD projects as of May 31, 1999 include:

Ukraine energy service company

A sovereign loan of \$ 30 million provided by the EBRD in May 1998 will finance the establishment of Ukraine's first energy service company. UkrEsco will

identify and implement energy-saving investments in small and medium-sized enterprises (SME's) and public sector institutions.

Air navigation system upgrading

In February 1998, the EBRD provided a loan of \$ 25.4 million to the Ukrainian State Air Traffic Services Enterprise, a state-owned company, to finance the installation of modern air traffic control equipment. The project will help to ensure aviation safety in Ukrainian air space and to attract additional overflight traffic, which will generate increased revenue.

Gas meters

In December 1997, the EBRD signed a \$ 80.6 million sovereign loan with UkrGas, a state-controlled corporation in charge of natural gas distribution. The proceeds will enable UkrGas to acquire and install over one million residential and commercial gas meters throughout the region of Dnipropetrovsk, as well as improving its billing and collection capabilities. The project will contribute significantly to improving efficiency of energy use throughout the region.

Starobeshevo Power Plant modernization

In December 1996, a loan agreement was signed with Donbasenergo Genco, one of Ukraine's four state-owned thermal power generators, for a credit of \$ 113 million to finance the replacement of an old coal-fired boiler with a more efficient and less polluting unit. The project will contribute to a significant improvement in energy efficiency, as the new boiler will use a waste product, replacing expensive local coal and imported gas and fuel oil.

Refurbishment of Boryspil Airport

Boryspil is Ukraine's largest international airport, situated about 40 kilometers from Kyiv. In December 1993, the EBRD granted a loan of \$ 5.1 million to help finance renovation of the airport. The total project cost was \$ 14.8 million, financed by a loan from the Ukrainian government and the First Ukrainian International Bank. The financing paid for refurbishment of the passenger terminal, which has helped the airport handle growing numbers of passengers and increasing international air traffic. These renovations also created facilities for commercial activities, such as duty-free shops and restaurants, which generate revenue for the airport. The renovations were completed in May 1994.

ITUR Telecommunications

ITUR (Italy-Turkey-Ukraine-Russia) is the name of a trans-border project funded by 26 international telecommunications operators and banks. The involvement of the Ukrainian Enterprise for International and Interurban Telecommunications and Broadcasting (UKRTEC) was made possible by a loan of \$ 53.12 million from the EBRD, granted in June 1994. The project provides Ukraine with modern telecommunications links with Europe, neighboring Black Sea countries and the rest of the world. The ITUR consortium is constructing an under-water cable, and constructing and operating a "land link" fiber optic cable, which links the ITUR landing station at Odesa to Kyiv and connects the ITUR terminating station to Palermo, Italy, and the rest of the world. The EBRD is also providing technical co-operation financing for the project.

Eurovision - TV Ukraine

Ukraine was one of 15 central and east European countries to benefit from the extension of the Eurovision network. In July 1992, the EBRD granted credit of ECU 11.5 million to help finance the design, supply and installation of earth stations in each of the countries, thus enabling them to be linked to the Eurovision network by satellite. Each country borrowed ECU 0.78 million for the partial financing of one transmit-and-receive earth station.

Zaporizhzhya water utility development and investment program

The project will finance critical investments in the water supply and wastewater sector in Zaporizhzhya and will enhance the financial and operational performance of Vodokanal, the publicly-owned water company. The EBRD would provide a \$ 28.0 million loan to Vodokanal. Total project cost, including interest during constructions and fees, would total \$ 46.3 million.

World Bank Projects:

Financial Sector Adjustment Loan:

Loan Amount: IBRD-\$ 300 million

Approved: September 15, 1998

This project will underpin Ukraine's macroeconomic reform program with a comprehensive set of policy measures intended to strengthen the financial sector, with a special emphasis on the banking system. The loan will reinforce the reform measures being undertaken under other Bank adjustment and investment operations by positioning the banking system to play a lead role in financing the investment needs of all sectors of the economy, particularly the newly emerging private sector.

Second Enterprise Development Adjustment Loan:

Loan Amount: IBRD-\$ 300 million

Approved: September 15, 1998

This project will support the government's privatization, capital markets development, accounting reform, bankruptcy reform, and deregulation programs. Other objectives are to: (1) provide foreign exchange for the purchase of critical imports and (2) support the development of the foreign exchange markets. The reforms will ensure the primary ownership transfer of most enterprises from the public to the private sectors and accelerate the secondary ownership changes already underway.

Kyiv District Heating Improvement:

Loan Amount: IBRD-\$ 200 million

Approved: May 21, 1998

This project will increase the efficiency of district heating in Kyiv by: replacing and increasing heat production capacity to better meet existing and expected future demand of district heating; introducing modern technologies and materials to extend the life of the Kyiv district heating system; and promoting sound cost recovery policies and practices.

Treasury Systems Project:

Loan Amount: IBRD - \$ 16.4 million

Approved: February 24, 1998

This project will support ongoing government efforts to design and implement a fully functional, automated treasury system that will serve as an effective instrument for budget execution and cash management. The project will provide

technical assistance, computer equipment and software, as well as training to enable the authorities to design, develop, test, and implement training programs for budget execution, treasury operations, and payroll management.

Coal Sector Adjustment Project (Coal Secal)

Loan Amount: IBRD - \$ 300 million

Approved: December 11, 1997

This project will to help finance the government of Ukraine's coal sector reform program. The loan will assist in financing the social mitigation program associated with the restructuring of the coal industry and safeguarding the viable portion of the industry. The loan will also support the transitional burden on the Ukrainian federal budget by providing significant balance of payments and budget financing assistance to strengthen overall economic stability.

Electricity Market Project:

Loan Amount: IBRD - \$ 317 million

Approved: October 11, 1996

The Electricity Market Development Project will support the development of a competitive electricity market by: building up stocks of fuel and spare parts and providing overdue maintenance at 14 thermal power plants; installing metering and communications equipment to improve recording and billing of electricity use; and providing technical services and training for implementing the project, managing the finances, and developing a privatization program.

Social Protection Support Project:

Loan Amount: IBRD - \$ 2.6 million

Approved: April 24, 1997

This project will improve the administration of the Ukrainian Ministry of Social Protection (MSP) Housing and Municipal Service Allowance Program (HMSAP). HMSAP was introduced by the government to assist tenants who cannot afford to pay for the rapid increases in municipal rents and tariffs imposed as Ukraine moves to privatize services. The project involves installation of hardware and training of MSP and HMSAP staff in automated systems operation for the processing of applications and documents. This includes: installation of about 800 computer workstations, 500 printers, diskettes, and initial consumables; installation of computer workstations with modems and communication software at local, regional and national administrative offices; establishment of a computer training center; and assistance for overall project implementation.

Agricultural Sectoral Adjustment Loan:

Loan Amount: IBRD - \$ 300 million

Approved: September 18, 1996

The loan will support the growth of a market-based agricultural system and the implementation of agricultural and trade reforms. Its aim is to increase market competition and encourage private ownership and investment in land and other productive assets, and provide short term balance-of-payments support for financing critical imports. The loan will benefit the development of markets to replace the past administrative system and to increase rural welfare and reinvestable profits for future capital formation. By reducing state procurements and restrictions on agricultural exports, more farm output will flow to export and domestic markets for higher quality products. These

markets will offer higher real prices than the State has paid in the past, thereby raising farm-level income and output. The reform program will improve agricultural terms of trade, increase input flows to farms, expand agricultural exports, and increase the efficiency of farm management.

Enterprise Development Adjustment Loan:

Loan Amount: IBRD - \$ 310 million

Approved: June 27, 1996

The project will support the government's trade and price liberalization, privatization, capital markets development, and post-privatization restructuring programs. The project will provide foreign exchange for the purchase of critical imports and support the development of foreign exchange markets. The project will also include the implementation of a privatization program for 5,000 medium and large enterprises, as well as the acceleration of privatization of small-scale enterprises. Additionally, the project will support the creation of a legislative framework and institutions to regulate new capital markets, including a securities and stock markets commission and a self-regulatory organization for market intermediaries.

Coal Pilot Project:

Loan Amount: IBRD - \$15.8 million

Approved: May 16, 1996

The main objective of this project is to mitigate the social and environmental consequences that arise from mine closures brought about by an overall government restructuring of the sector. The project will test ways to implement mine closures safely, with due regard to technical, environmental, economic, financial, and social aspects; ensure that mine workers are given opportunities to either transfer to other jobs in the sector or leave the industry with reasonable compensation and a choice of assistance for seeking other employment; transfer social assets to municipal management; and through monitoring and feedback, gain experience from the Pilot Project for other projects.

Approved TDA Projects in Ukraine, as of June 1999:

Aluminum Smelter - TDA has approved partial funding (\$240,900) for a study on conversion of the ZALK smelter to pre-bake technology. Kaiser Aluminum and Chemical Corp. has been selected to conduct the study.

Pollution Control—TDA has approved funding (\$200,000) for studies on environmental investments by industrial enterprises, to be financed by the World Bank. Booz-Allen & Hamilton conducted the studies.

Oil Pipeline—TDA is providing partial funding (\$750,000) for a study on construction of an oil pipeline from Odesa to Brody. Gulf Interstate Engineering is conducting the study.

Vinyl Windows—TDA is providing partial funding (\$250,000) for a study on production in Ukraine and Russia of vinyl windows from U.S. components. ACRO Extrusion Corporation is conducting the study.

Defense Conversion—TDA is providing funding (\$150,000) for an Orientation Visit for representatives of Kharkiv-based defense enterprises. Power Tech Associates is organizing the OV.

Coal Recovery—TDA is providing partial funding (\$375,000) for a study on recovery of coal from slurry ponds. A consortium headed by Oxbow Coal and Carbon is conducting the study.

Air Traffic Control—TDA is providing funding (\$500,000) for a study on upgrading the ATC system in Ukraine. ARINC is conducting the study.

Meat Processing—TDA is providing partial funding (\$150,000) for a study on four meat processing projects. Koch Supplies Inc. is conducting the study.

Kyiv Airport—TDA provided partial funding (\$500,000) for a study on upgrading Boryspil airport. The Canadian Government provided an additional \$300,000. Hughes Aircraft conducted the study.

Power Plant Repowering—TDA provided partial funding (\$400,000) for a study on conversion of a coal-fired power plant in Dnepropetrovsk to gas. NRG and Black & Veatch conducted the study.

Aluminum Smelter—TDA provided partial funding (\$500,000) for a study on upgrading of environmental controls and automation at the Zaporozhye smelter. Technalum conducted the study.

Spent Fuel—TDA provided partial funding (\$300,000) for a study on construction of a spent fuel facility at Zaporozhye Nuclear Power Plant. Duke Engineering & Services conducted the study.

Power Plant Systems—TDA provided partial funding (\$200,000) for a study on coproduction of instrumentation systems for nuclear power plants. Westinghouse Electric conducted the study.

Electronic Money—TDA provided partial funding (\$450,000) for a study on development of a new banking network utilizing smart cards. Vastarr conducted the study.

Antonov Aircraft—TDA provided partial funding (\$1,000,000) for a study on coproduction of the An-38, a small passenger/cargo aircraft. AlliedSignal conducted the study.

Cement Plants—TDA provided partial funding totaling \$400,000 for separate studies on the rehabilitation of two cement plants. Fuller International conducted the studies.

District Heating—TDA provided funding (\$626,000) for a study on upgrading the Kyiv district heating system. Joseph Technology conducted the study.

Energy Conservation—TDA provided partial funding (\$400,000) for a study on energy conservation investments at three facilities. Honeywell Inc. conducted the study.

Railways—TDA provided funding (\$250,000) for studies on restructuring of and development of a telecom plan for Ukrainian Railways. Clell Harral International conducted the telecom study; JH Winner Inc. conducted the restructuring study.

Coalbed Methane—TDA provided partial funding (\$600,000) for a study on development of coalbed methane in the Donbass region. International Coalbed Methane Group conducted the study.

Nuclear Safety—TDA provided funding (\$152,000) for a safety study related to an EBRD-financed project to complete two nuclear power plants. Sciencetech-NUS conducted the study.

United States Agency for International Development

The United States Agency for International Development (USAID) is the U.S. Government's major foreign assistance agency. USAID's principal mission in Ukraine is to help the country make the transition to a broad-based democracy with a market-oriented economy. USAID also supports the government of Ukraine's efforts to alleviate the privations imposed on the most vulnerable members of society during the economic transition. U.S. assistance focuses on six areas:

Privatization and Capital Markets

USAID finances and provides technical assistance for large- and small-scale privatization including: 1) a nationwide network of auction and bid collection centers; 2) public information campaigns on privatization and market reform; 3) preparing state enterprises for auction; 4) calculating and reporting auction results; and 5) legal, organizational and policy support to national and local officials on all privatization programs. USAID supports the privatization of housing, urban land and the private provision of residential maintenance services. Capital markets development assistance includes regulatory drafting, technical assistance, training and equipment to: 1) support new Securities Commission; 2) foster a better legal and enforcement environment for corporate governance and shareholder rights, that focus on investor protection; 3) improve issuers financial disclosure procedures; 4) establish and enhance the nationwide, computer-assisted over-the-counter share trading system and a private central securities depository; 5) develop securities industry institutions such as independent registrars, custodians, and broker-dealer firms, and 6) establish self-regulation within securities industry and improve professional standards.

Business Development

USAID supports new and privatized enterprises through activities aimed at transfer of business skills, reforms to the legal and regulatory environment, increasing access to finance and post-privatization restructuring. Deregulation at the local and national level is a top assistance priority. Many of the business development activities target micro, small and medium sized enterprises. A network of 15 business centers and 3 incubators reaches entrepreneurs at all levels. Credit and investment programs for larger businesses through the West NIS Enterprise Fund and small and micro loans through the Eurasia Foundation, the EBRD, and business incubators provide finance and equity capital to enterprises. An enterprise restructuring activity builds on corporate governance practices to bring about improvements in privatized enterprises. Procedures and systems have been put in place to privatize land under privatized enterprises and sales are proceeding.

Economic Restructuring

The focus of USAID's economic restructuring program is to help Ukraine create the institutions of a market economy, particularly in the banking system, commercial law, tax systems and trade and investment regimes, plus macroeconomic analysis. The program concentrates on: 1) improving overall tax structure and administration; 2) developing tools for budget estimation, analysis and monitoring; 3) developing professional skills and organizational capability at the National Bank and advancing professional skills of the commercial banks; 4) providing macroeconomic policy research and analytical support for key policy makers; 5) strengthening the bankruptcy, collateral and enforcement systems of the legal framework; 6) reforming the regulatory regime of the government as it affects private business; (7) supporting revision of the civil code; and 8) establishing a commercial law clearinghouse to promote public access to the legislative process.

Agriculture

Reactivating and transforming Ukrainian agriculture and the entire food production system is central to economic recovery and reform. USAID is assisting Ukraine in restructuring this priority sector through an agricultural strategy that focuses on one to three regions in the areas of: 1) financing and developing private sector sources of inputs to agriculture, and private processing of agricultural products; 2) developing an agriculture credit program; 3) privatizing agricultural land with special emphasis on restructuring collective agricultural enterprises into private entities and the issuance of land titles and developing a land market; 4) reducing the environmental impact of agricultural chemicals; 5) private farm and household plot development; 6) privatization of the agro-industrial complex including grain storage, input and marketing facilities; and 7) implementing new agriculture policies to facilitate a private- sector based market economy.

Energy and Environment

USAID has helped develop a multi-faceted energy program for Ukraine which focuses on: 1) power sector restructuring, which has helped transform the power sector from a vertically integrated monopoly to a market system with regulatory oversight of tariffs and licensing, and power distribution based on financial bids; 2) assisting the government of Ukraine to privatize the power sectors, starting with 27 distribution companies; 3) development of a coal bed methane industry; 4) improving energy production and conservation by introducing new technologies, management techniques and applying market principles; and 5) supporting Ukraine's nuclear safety performance and improving nuclear sector regulation and inspection. U.S. assistance is also helping Ukraine improve its environment with activities to: 1) strengthen environmental institutions within government, the private sector and the NGO community; 2) assist governments to improve the operations and management of infrastructure, particularly water systems; 3) develop environmental assessment capacity within industry and promote eco-efficient business development; 4) coordinate with other donors and Ukraine to address social, environmental and energy efficiency issues related to the closure of the Chernobyl Nuclear Power Plant.

Democratic Reforms

Ukraine is seeking to become a nation ruled by law, where human rights are respected and freedom of speech and press ensured, in which government policy

and activity reflects the needs and wishes of an informed citizenry, and to whom representatives are responsive and officials are accountable. USAID programs promote democratic reform by helping to: 1) develop competitive and fair political processes, including elections; 2) support the emergence of laws and legal institutions that support and embody democratic processes; 3) strengthen local government to make it effective, responsive and accountable to citizens; 4) empower citizens to participate actively in the political and economic life of their communities through non-governmental organizations, through democratically-structured political parties, and independent trade unions; and 5) strengthen independent media.

Social Protection

USAID's support for social sector restructuring in Ukraine is designed to protect the most vulnerable members of the population during the economic transition, reduce government budget expenditures on the social sector, and facilitate price increases necessary to increase the quality of social services. Our activities address the urgent humanitarian and health needs of the people of Ukraine by: 1) supporting the government in moving from universal housing and communal services subsidies to those based on income; 2) providing humanitarian assistance and strengthening the ability of non-governmental organizations to deliver social services; 3) laying the foundation for a sustainable system of pensions and social insurance; 4) providing training and supplies to improve the quality of and access to reproductive health care and the screening for and treatment of breast cancer; 5) supporting hospital partnerships for the exchange of information, training and personnel; 6) providing emergency medical assistance while strengthening the Ukrainian government's ability to respond to health and environmental crises.

Chapter IX: Business Travel

A. Business Customs

Given the fact that "business" in a Western sense is something new to the current generation of Ukrainians, it is difficult to generalize as to proper protocol and customs for doing business in Ukraine. The legacy of centralized authority extending back for centuries, bureaucracy, red tape, and an unwillingness to take initiative have been imprinted on the developing Ukrainian business psyche. Signatures, proper letterhead, stamps of authenticity, and forms (in triplicate) are very important to "getting the job done" in Ukraine -- a process which can exercise the most experienced international businessperson. For example, a letter authorizing Mr. X to do Y will sometimes be rejected because it does not have "the proper stamp." Foreign companies will often stamp a document in English with an "official" seal, show the stamp to a customs officer or other bureaucrat (who likely cannot read English anyway), finding that this strategy is often successful.

Due to the general lack of knowledge about international business practices and terminology exhibited by most Ukrainians, it is important to take an educating role in business negotiations. Ukrainians can be shrewd and tough negotiators. It is important to be very responsive to one's negotiating partner, even regarding seemingly mindless issues. Visits to factories or

other places of business activity in the U.S. can literally be the "picture worth a thousand words," as relatively few Ukrainians have been to the U.S.

The form of business in Ukraine often takes precedence over the substance, making a U.S. partner's approach all the more important. As noted above, given the absence of a strong, transparent legal infrastructure, your deal may in the end depend on the trust you have painstakingly built over many months or years.

As Ukrainians are deeply personal, an extraordinary emphasis is placed on cementing personal relationships before doing business. Face-to-face meetings are the norm, with little business conducted over the phone. Business cards, printed in English and Ukrainian or Russian, are de rigueur, with a firm handshake to open and close a meeting. Long evenings of vodka toasts (moderation is advised) and several-course meals are important in building trust with your Ukrainian partner; wishing good health, happiness, and success on your partner's immediate family will be certain to bring a smile and a hearty "thank you." Remembering your Ukrainian partner's birthday, child's birthday, and keeping Ukrainian holidays (see subsection C, below) in mind will be gestures not soon forgotten.

B. Travel Advisory and Visas

All non-CIS citizens need a passport and Ukrainian visa to enter Ukraine. Visas can be obtained in advance from the Embassy of Ukraine, 3350 M Street, NW, Washington DC 20007; Tel: (202) 533-7507; Fax: (202) 333-0817; or at the Ukrainian Consulates General in Chicago (2247 W. Chicago Ave., Chicago, IL 60622; Tel: (312) 384-6632; Fax: (312) 384-6750) and New York (240 East 49th St., New York, NY 10017; Tel: (212) 371-5690; Fax: (212) 384- 6750).
<http://www.ukremb.com>

A letter of invitation from a person, company, or organization in Ukraine (or a travel company voucher) is currently required to obtain a visa.

U.S. citizens cannot obtain visas at airports or border crossings. CS Kyiv strongly recommends that business travelers secure all documents prior to entering Ukraine. The duration of one's visa will be determined by the traveler's letter of invitation. To extend a visa, you must contact the Ministry of Foreign Affairs, Tel: (380-44) 226-3379.

All foreigners visiting Ukraine, except those staying less than three working days and minors (under 18), are required to register their passports with local law enforcement authorities. This law is not uniformly enforced, but visitors who do not register may experience delays when leaving Ukraine, or difficulty when trying to extend visas. The registration requirement is automatically met when foreigners stay in hotels, when resident business persons register their businesses, or when students register under established exchange programs. Private visitors must have their hosts, relatives, or landlords register their U.S. passport at the local "Visas, Permits, and Passports Department" (VVIR) of the Ministry of Foreign Affairs. A fee is usually charged for visa extensions or passport registration.

Please note that business travelers who intend to visit Russia from Ukraine must have a valid Russian visa. The Consular Section of the Embassy of the

Russian Federation in Ukraine is located at: 8 Prospect Kutuzova, Kyiv 252196, Ukraine; Tel: (38044) 294-6701; Fax: (380-44) 294-6516, 294-7936; hours: 9-5 p.m., M-W-F. The address of the Ukrainian Embassy in Moscow is: 18 Stanislavskaya St.; Tel: (095) 229-3422, 229-3442; Fax: (095) 229-3542.

Insurance :

In August 1998, the Ukrainian government issued a decree requiring that all foreign visitors obtain "emergency medical insurance" from the Ukrainian State Insurance Company. This insurance is not valid at private clinics, but reportedly allows foreigners to be treated in any state hospital without advance payment. Non-emergency service requires 24-hour notice in the form of a phone call to the State Insurance Company. "Emergency Medical Insurance" is currently available only at major international airports within Ukraine and at certain land border crossings. Fees for insurance range from 15 to several hundred dollars, depending on the length of stay. Fees are normally accepted in cash and are generally accepted only in U.S. dollars. Enforcement of this insurance requirement is not consistent. This has caused problems for American citizens who were not required to purchase insurance upon entering Ukraine, and subsequently had difficulty registering with the Office of Visas and Registration because they lacked proof of insurance. Many Americans have reported that they are being overcharged for this insurance. Therefore, Americans are advised to carefully review the fee schedule at the insurance booth and pay only the legally established fee.

U.S. medical insurance is not always valid outside of the United States. Those travelers carrying valid overseas insurance coverage are not exempt from the "emergency medical insurance" requirement by the Ukrainian government.

Crime Information:

Crime in Ukraine is a growing problem. A number of racially motivated assaults and incidents of harassment have recently been reported. Westerners and their vehicles and residences are increasingly viewed as choice targets. Pickpocketing, robbery, and other petty crimes are a common occurrence on the mass transit system. There have been a number of documented reports of criminal acts occurring on trains, including gassings and robberies. Therefore, special care should be taken on subways, busses and trams. Economically-motivated crimes in Ukraine are on the rise, with foreigners frequently targeted by various criminal elements. The Embassy is aware of a common criminal approach: targets are spotted leaving Western restaurants and bars, then attacked once inside the doorway of their building, which is usually dark. Care should be taken to protect difficult-to-replace documents. Visitors should conduct themselves as they would in any major U.S. city -- always be aware of your surroundings, travel in pairs or groups, avoid poorly-lit or isolated areas of the city, and refrain from hailing rides from cars with two or more people already inside.

Consult the current Consular Information Sheet for Ukraine, prepared by the U.S. Department of State, for updates on the crime situation.

C. Holidays

Official 2000 Ukrainian holidays are as follows:

January 1	New Year's Day
January 7	Orthodox Christmas
March 8	International Women's Day
April 30	Orthodox Easter
May 1-2	Labor Day
May 9	Victory Day
June 18-19	Holy Trinity Days
June 28	Constitution Day
August 24	Independence Day
November 7-8	Revolution Days

According to recent amendments to the Ukrainian Labor Law, if a holiday falls on Saturday or Sunday, the day-off is transferred to the following Monday.

Ukrainian time is GMT+2 (Greenwich Mean Time) and EST+7 (Eastern Standard Time). The country observes daylight savings times from the last Sunday in March through the last Sunday in October.

D. Business Infrastructure

Accommodations:

There is a range of hotels in Kyiv, varying in price. The American Business Center can provide a listing of the most widely-used hotels in Kyiv, and in some of the other larger cities in Ukraine. Please check and confirm rates at your hotel prior to arrival. If preferred, various agencies in Ukraine can suggest apartment rentals on a daily, weekly, or monthly basis for business travelers. Please be advised that during the winter months heating may not be

available in many hotels outside Kyiv. Hot water is generally available in hotels, but there are periods (two-six weeks during the summer) when the hot water pipes are turned off for cleaning and repairs.

The standard electrical voltage throughout Ukraine is 220 volts, with continental (two-pronged) outlets. If traveling with U.S. electrical appliances, a plug adapter is necessary and, most likely, a converter as well (unless the appliance states otherwise). Travelers might also want to consider bringing a surge protector, especially for portable computers and other electronic devices.

Clothing:

Business attire in Ukraine is generally formal; for business, dress should be conservative. A suit or dress trouser with blazer and tie is suitable for men, while appropriate dress for women can extend from a suit to dress slacks and blazer. Outside the capital, dress is slightly more casual. In the cooler months, dressing for warmth dictates, especially in regions of Ukraine prone to heating shortages.

Communications:

Ukraine's local telecommunications system has made marked improvements over the last few years, particularly in international, cellular, and mobile communications. International calls can be made from Utel cardphones at a variety of points in Kyiv, including Boryspil Airport. To make long-distance calls from Ukraine, first dial 8, then wait for a new dial tone. International calls require dialing 10, followed by the country code, city code, and number. Ukraine's country code is 380; Kyiv's city code is 44.

Etiquette:

- do not shake hands across the threshold of a door (it is considered bad luck);
- when shaking hands, take off your gloves;
- be sure to have your business cards printed in Ukrainian on one side and English on the other side;
- be prepared to accept all food and drink offered. Ukrainians are known for their generosity when it comes to food; turning down food may be considered rude;
- if you bring flowers, make certain that it is an uneven number of flowers;
- offer to share your cigarettes and snacks with those around you;
- do not put your thumb between your first two fingers - this is a very rude gesture.

Language:

Ukrainian is the official state language of Ukraine. However, Russian is widely used in Kyiv and, especially, the cities of eastern Ukraine (to a much lesser extent in western Ukraine). The number of English speakers is growing yearly. Some useful Ukrainian vocabulary to remember is DOBRIY DEHN (hello, good day); DYA-KOO-YOU (thank you); BOOD LASKA (please/you're welcome). The American Business Center of The Commercial Service in Kyiv can suggest interpreters and translators.

Medical:

Bring prescriptions with you and avoid drinking tap water (bottled water is readily available in major hotels and supermarkets). Long-term visitors may wish to consider bringing a distiller -- not a filter -- for a constant supply of potable water. Short-term business travelers are unlikely to be affected by increasing reports of diphtheria and cholera; however, it is wise to make sure that all foods and utensils are thoroughly cleaned. Prior to travel, make sure proper immunizations are up-to-date. The American Business Center can provide business travelers with further health information for Ukraine.

Money:

Ukraine is still primarily a cash economy. Traveler's checks and credit cards are gaining wider acceptance in larger cities. Credit cards are starting to be accepted at major hotels and Western-style restaurants. However, do not depend on using your credit card; bring adequate cash to cover incidental expenses. We recommend bringing bills in good condition and without tears or writing on them. Rumpled, torn, and written-on bills are usually not accepted. Official exchange points (called "obmin valyut") operate in most hotels and supermarkets. It is illegal to exchange money outside of exchange points, and we strongly discourage doing so.

Currency Regulations:

Customs regulations prohibit sending cash, traveler's checks, personal checks, credit cards, or passports through the international mail system to Ukraine. These items are regularly confiscated as contraband by customs authorities. Travelers must declare all cash and jewelry, regardless of value, upon entering Ukraine. Any undeclared items are subject to confiscation. Additionally, travelers should retain their customs forms, as they will be required to present these forms upon departure from Ukraine. Under customs regulations, travelers may bring up to \$10,000 in cash into Ukraine without special permission; more than \$ 10,000 requires a written statement by the traveler.

Radiation:

Radiation levels in Kyiv and most of Ukraine are considered safe and normal by the U.S. Embassy and other official bodies. Levels are measured daily.

Traffic Safety and Road Conditions:

Roads in Ukraine are in generally poor condition. Travel between cities at night and in winter can be particularly treacherous. Major roads are drivable during daylight hours. Roadside services, such as gas stations and repair facilities, exist but are inadequate. Travelers should plan accordingly. Additionally, carjackings of Western-made or foreign-registered vehicles is on the rise.

Ukraine is a zero tolerance country -- don't drink and drive!

Transportation:

City transport in Kyiv is cheap, but crowded and slow at times. The Metro (subway/local train) is probably the quickest public transport method. Metro tokens can be purchased at individual stations; monthly passes at transportation kiosks. However, hailing a cab is probably the most efficient form of transportation within the city. Private cars can also be hired for a reasonable price but most drivers do not speak English. Be sure to agree on a price beforehand. It is becoming customary to order a taxi by phone. The most reliable and comfortable taxis can be ordered by dialing: 0-58, 234-4444 (yellow cabs), 574-0574 (blue or white cabs).

Rent-a-car service. International trademarks Avis (Tel: 294-2104), Hertz (Tel: 296-7616), and Europcar (Tel: 274-9977) run their operations in Kyiv and Boryspil Airport.

Train travel is the least expensive and most convenient method to reach just about any location in Ukraine. Trains are very slow, but generally safe.

Air travel within Ukraine is often unreliable, with unpredictable schedules and service not on par with Western standards. Ukrainian domestic carriers operate Antovov-24 or Yakovlev-40 type aircraft, most of which have been in use for over 20 years. Due to very old air navigation equipment being operated by Ukrainian air traffic service, domestic flights are subject to prolonged delays, especially during bad weather. Direct air service between Ukrainian cities, other than from Kyiv, is unavailable.

The reconstruction of Boryspil Airport has made for a more traveler-friendly environment. However, plan for frustrating delays at passport and customs control points. The number of international airlines operating flights in and out of Kyiv is increasing. Austrian Airlines now has regular direct service between Vienna and Kyiv, Odesa, Dnipropetrovsk and Kharkiv. Of the U.S. carriers, Delta operates code-share flights with Ukraine International Airlines, Austrian Air and Swissair; United Airlines - with Lufthansa; and Northwest -with KLM. Other major international airlines with regular service in Ukraine are: Air France, British Airways, Lufthansa, KLM, Finnair, Swissair, Malev, LOT, CSA, Turkish Airlines, Aeroflot, and Transaero.

U.S. business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel: (202) 512-1800; Fax: (202) 512-2250.

Business travelers to Ukraine seeking appointments with the U.S. Embassy Kyiv officials should contact the Commercial Section in advance. The Commercial Section can be reached by telephone at (380-44) 417-2669, fax at (380-44) 417-1419, or email at kiev.office.box@mail.doc.gov

Chapter X: Appendices

A. Country Data

Population: 50.09 million

Population Growth Rate: (-1)%

Religions: Orthodox, Ukrainian Catholic (Greek Rite), Roman Catholic, Jewish, Muslim, and others.

Government System: The Head of State is the President, vested with supreme and executive power. In 1994, Leonid D. Kuchma was elected President of Ukraine. The government is led by the Prime Minister. The superior body of legislation is the Verkhovna Rada (Parliament). In Ukraine, there are 24 administrative regions (oblasts), the Autonomous Republic of Crimea, and two municipalities (Kyiv and Sevastopol)

Languages: Ukrainian (official), Russian (widely spoken and also officially recognized)

Work Week: 40 hours per week (normal business hours: 9 a.m. - 6 p.m.)

B. Domestic Economy

	1997	1998 (estimated)	1999 (forecast)
GDP (\$ billion)	49.7	40.8	40.3
GDP Growth Rate (%)	-3.2	-1.7	-1.0
GDP Per Capita (\$)	863	854	775
Government Spending (% of GDP)	44.0	29.4	28.1
Inflation (annual %)	10.3	20.0	19.0
Unemployment (%)	3.1	3.5	4.0
Foreign Exchange Reserves (\$ billion)	2.3	0.9	1.0
Average Exchange Rate **	1.9	3.4	4.0
Foreign Debt (\$ billion)	9.8	11.0	12.5
Debt Service/Export Ratio (%)	10.5	N/A	N/A
US Economic Assistance (\$ million)	225	225	195

** UAH:\$

C. Trade (\$ millions)

	1997	1998	1999
Total Country Exports	20,355	17,400	17,450
Total Country Imports	21,891	18,300	17,900
U.S. Exports to Ukraine	404	368	N/A
U.S. Imports from Ukraine	414	531	N/A

D. Investment Statistics

According to Ukrainian government sources, as of January 1, 1999, the total volume of direct foreign investment into Ukraine since 1992 had reached approximately \$2.8 billion, the majority of which was invested in joint ventures. The following are the official Ukrainian government statistics for total direct investment by country of origin from 1992 through January 1, 1999 (in \$ millions):

United States	523.7	18.6%
Netherlands	272.6	9.7%

Germany	226.8	8.1%
Great Britain	210.2	7.5%
Russia	184.8	6.6%
Korea	171.2	6.1%
Cyprus	142.9	5.1%
Switzerland	100.2	3.6%

The most common sectors of activity for foreign investors are: the food industry, domestic trade, and credit, finance, and insurance. The following is an industry breakdown of total investments into Ukraine (in \$ millions) by the major sectors as of May 1, 1999:

Food Industry	600.8
Machine Building & Metalworking	347.7
Domestic Trade	257.2
Credit, Finance, & Insurance	177.0
Chemical Industry	119.8

Chapter XI: U.S. and Country Contacts

E. U.S. and Country Contacts

THE U.S. EMBASSY IN UKRAINE

1. The Ambassador
Steven Pifer, U.S. Ambassador to Ukraine
David Hess, Deputy Chief of Mission
10, Yuriya Kotsyubinskoho Vul., Kyiv 254053, Ukraine
Tel: (380-44) 246-9750; Fax: (380-44) 244-7350

Consular Section Fax: (380-44) 216-3393
<http://www.usemb.kiev.ua>
2. Foreign Commercial Service (FCS)
Andrew Bihun, Senior Commercial Officer (through August 1999)
David Hunter, Senior Commercial Officer (from September 1999)
Bela Babus, Commercial Officer
7, Kudriavsky Uzviz, 2nd Floor, Kyiv 254053, Ukraine
Tel: (380-44) 417-2669, 417-1413; Fax: (380-44) 417-1419
E-mail: kiev.office.box@mail.doc.gov
3. Economic Section
John Bowen, Economic Counselor
10, Yuriya Kotsyubinskoho Vul., Kyiv 254053, Ukraine
Tel: (380-44) 246-9750; Fax: (380-44) 244-7350
4. U.S. Agency for International Development (USAID)
19, Nizhnij Val., Kyiv 254071, Ukraine
Tel: (380-44) 462-4578, 462-5679, 462-5680, 462-5681
Fax: (380-44) 462-5834
5. Foreign Agricultural Service (FAS)
7, Kudriavsky Uzviz, 2nd Floor, Kyiv 254053, Ukraine

Tel/Fax: (380-44) 417-1268, 417-1285
E-mail: agkiev@usdal.sprint.com

6. U.S. Information Service (USIS)
63 Melnykova Vul., Kyiv 252050, Ukraine
Tel: (380-44) 213-2532, 246-8221, 246-8222
Fax: (380-44) 213-3386
E-mail: info@usis.kiev.ua
<http://www.usis.kiev.ua>
7. Peace Corps
Jaroslaw Dutkewych, Country Director
111-a Saksahanskoho, Kyiv 252032, Ukraine
Tel: (380-44) 220-1183, 220-1793, 220-5706
Fax: (380-44) 220-6351

C. U.S. CONTACTS IN THE UNITED STATES

1. U.S. Department of Commerce
International Trade Administration
14th & Constitution Ave., N.W., Washington, DC 20230

U.S. & Foreign Commercial Service
Office of International Operations
Russia/NIS Program Office
Betty Smith, Deputy Director
Tel: (202) 482-5402; Fax: (202) 482-2456

Market Access and Compliance (MAC)
Christine Lucyk, Senior Policy Advisor - Ukraine
Tel: (202) 482-2018; Fax: (202) 482-2456

Business Information Service for the Newly Independent States (BISNIS)
Ann Grey, Director
Juliana Kinal, International Trade Specialist
USA Trade Center
1300 Pennsylvania Ave., N.W.
Washington, DC 20230
Tel: (202) 482-4655; Fax: (202) 482-2293 or 1-800/USA-TRADE
E-mail: bisnis@ita.doc.gov
<http://www.bisnis.doc.gov>

Special American Business Internship Training Program (SABIT)
Liesel Duhon, Director
14th & Constitution Ave. N.W., Room 3319
Washington, DC 20230
Tel: (202) 482-0073; Fax: (202) 482-2443
E-mail: SABIT@usita.gov
<http://www.mac.doc.gov/sabit/sabit.html>

Office of Multilateral Development Banks
Janet Thomas, Acting Director
USA Trade Center
Ronald Reagan Building, Mezzanine Level

Washington, DC 20230
Tel: (202) 482-3399; Fax: (202) 482-3914
<http://www.ita.doc.gov/mdbo>

Trade Information Center
14th & Constitution Ave., N.W., Room 7424
Washington, DC 20230
Tel: (800) USA-TRADE or (800) 872-872; Fax: (202) 482-4473
E-mail: TIC@ita.doc.gov
<http://www.infoserv2.ita.doc.gov/tic.nsf>

2. U.S. Department of Agriculture (USDA)

Foreign Agricultural Service
14th & Independence Ave., S.W., Washington, DC 20250-1000
Tel: (202) 720-3935, Fax: (202) 720-7729
E-mail: fasinfo@fas.usda.gov
<http://www.fas.usda.gov>

3. U.S. Department of Energy
<http://www.fe.doe.gov>

William Chandler, Director
Battelle Pacific Northwest National Laboratory
901 D Street, S.W., Suite 900, Washington, DC 20024
Tel: (202) 646-5242, (800) 201-2011
<http://www.pnl.gov>

4. U.S. Trade and Development Agency (USTDA)

Daniel Stein, Regional Director (NIS)
Kelley Ann Szalkowski, Country Manager
1621 North Kent St., Suite 200, Arlington, VA 22209-2131
E-mail: info@tda.gov
<http://www.tda.gov>

D. AMCHAM AND/OR BILATERAL BUSINESS COUNCILS

1. American Chamber of Commerce in Ukraine

Patrick Bracken, President and Chairman
Jorge Zukoski, Executive Director
42-44 Shovkovychna Vul., LL2
Kyiv 252004, Ukraine
Tel: (380-44) 490-5800; Fax: (380-44) 490-5801
E-mail: acc@chamber.ru.kiev.ua
<http://www.amchamukraine.kiev.ua>

2. U.S. - Ukraine Business Council

Kempton Jenkins, President
1615 L Street, N.W., Suite 900
Washington, DC 20036
Tel: (202) 778-1065, 955-4504

Fax: (202) 466-6002, 955-4506

E. UKRAINIAN TRADE AND INDUSTRY ASSOCIATIONS

Ukrainian Union of Industrialists and Entrepreneurs
Volodymyr Schelkunov, First Vice-President
34, Khreshchatyk Vul., Kyiv 252001, Ukraine
Tel: (380-44) 224-8346; Fax: (380-44) 226-3152

Union of Small, Medium and Privatized Enterprises
Yuriy Yekhanurov, President
16, Shevchenko Blvd., Kyiv 252601, Ukraine
Tel/Fax: (380-44) 224-1219

International Union of Ukrainian Businessmen
Roman Dyakiv, President
2-v, Pyrohova Vul., Kyiv 252030, Ukraine
Tel: (380-44) 228-3308, 224-9832
Fax: (380-22) 228-8384
E-mail: BD@iuub.freenet.viaduk.net

Association of Entrepreneurs INFOBUSINESS
(Grantee of the Center of International Private Enterprise)
Bohdan Rybak, President
4, Teriokhina, Vul., Kyiv 254080, Ukraine
Tel: (380-44) 435-6694, 435-6474
Fax: (380-44) 435-6581
E-mail: alexei@infb.carrier.kiev.ua
<http://www.users.lucky.net.ua/~infb>

Ukrainian League of Enterprises of the Agro-Industrial Complex
Leonid Kozachenko, President
13, Kostyolna Vul., Kyiv 252001, Ukraine
Tel: (380-44) 228-5734; Fax: (380-44) 228-6895
E-mail: root@agroin.freenet.kiev.ua

Chamber of Commerce and Industry (CCI) of Ukraine
Oleksiy Mykhailychenko, President
33, Velyka Zhytomyrska Vul., Kyiv 252601, Ukraine
Tel: (380-44) 212-2911, 212-2818
Fax: (380-44) 212-3353

F. COUNTRY GOVERNMENT OFFICES

I. Presidential Administration

Leonid Kuchma, President
11, Bankova Vul., Kyiv 252005, Ukraine
Tel: (380-44) 291-5333; Fax: (380-44) 291-6161

Mykola Biloblotskiy, Head, Administration of the President of Ukraine
11, Bankova Vul., Kyiv 252005, Ukraine
Tel: (380-44) 291-5989

II. Cabinet of Ministers

a. Office of the Prime Minister

Valeriy Pustovoitenko, Prime Minister
12/2 Hrushevskoho Vul., Kyiv 252008, Ukraine
Tel: (380-44) 226-2289, 226-3263
Fax: (380-44) 226-2608, 293-2093

Anatoliy Kinakh, First Deputy Prime Minister
Tel: (380-44) 293-0716, 293-4465

Mykhailo Hladiy, Deputy Prime Minister, Agricultural Complex
Tel: (380-44) 226-2576, 293-2243

Valeriy Smoliy, Deputy Prime Minister, Humanitarian Policy
Tel: (380-44) 293-0619, 293-3934

Serhiy Tyhypko, Deputy Prime Minister, Economic Reform
Tel: (380-44) 226-2186, 226-2802

b. Ministries

Ministry of Agricultural Complex
Mykhailo Hladiy, Minister
24, Khreshchatyk Vul., Kyiv 252001, Ukraine
Tel: (380-44) 226-3466, 226-3376
Fax: (380-44) 229-8545

Ministry of Coal Industry
Serhiy Tulub, Minister
4, Bohdana Khmelnytskoho Vul., Kyiv 252006, Ukraine
Tel: (380-44) 228-0372, 226-2273
Fax: (380-44) 229-2131

Ministry of Culture and Arts
Yuriy Bohutskiy, Minister
19, Ivana Franka Vul., Kyiv 252030, Ukraine
Tel: (380-44) 226-2645
Fax: (380-44) 225-3257

Ministry of Defense
Oleksandr Kuzmuk, Minister
6, Povitroflotskuy Prospect, Kyiv 52168, Ukraine
Tel: (380-44) 226-2656, 224-7152
Fax: (380-44) 226-2015

Ministry of Economics
Vasyl Rohovy, Minister
12/2, Hrushevskoho Vul., Kyiv 252008, Ukraine
Tel: (380-44) 293-9394, 226-2315
Fax: (380-44) 226-3181

Ministry of Education
Valentyn Zaychuk, Minister
10, Prospect Peremohy, Kyiv 252135, Ukraine
Tel: (380-44) 226-2442, 226-2661
Fax: (380-44) 274-1049

Ministry of Energy
Ivan Plachkov, Minister
30, Khreshchatyk Vul., Kyiv 254071, Ukraine
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Fax: (380-44) 224-4021.

Department of Nuclear Power
Mykola Umanets, 1st Deputy Minister
9/11 Arsenalna Vul., Kyiv, Ukraine
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Fax: (380-44) 224-4021, 462-0561, 221-4394

Department of Oil, Gas and Oil Refining
Vladislav Tarashevsky, Deputy Minister
60 Sichovykh Striltsiv, Kyiv 254050, Ukraine
Tel: (380-44) 226-3241/3482, 246-8101
Fax: (380-44) 211-3010

Ministry of Environmental Protection and Nuclear Safety
Vasyl Shevchuk, Minister
5, Khreshchatyk Vul., Kyiv 252601, Ukraine
Tel: (380-44) 226-2428, 228-0644
Fax: (380-44) 229-8383

Geology Committee (Geocom) of Ukraine
Serhiy Hoshovsky, Chairman
34 Volodymyrska Vul., Kyiv 252601, Ukraine
Tel: (380-44) 226-2007, 228-3243
Fax: (380-44) 228-6221

Ministry of Extraordinary Situations and for Protection
of Population from the Aftermath of the Chornobyl Accident
Vasyl, Durdynets, Minister
55, Honchara Vul., Kyiv 252030, Ukraine
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Fax: (380-44) 247-3144

Minister of Finance
Ihor Mityukov, Minister
12/2 Hrushevskoho Vul., Kyiv 252008, Ukraine
Tel: (380-44) 293-5363, 226-2044
Fax: (380-44) 293-8243

Ministry of Foreign Affairs
Borys Tarasiuk, Minister
1, Mykhailivska Vul., Kyiv 252018, Ukraine
Tel: (380-44) 212-8286, 212-8675
Fax: (380-44) 226-3169

Ministry of Foreign Economic Relations and Trade (MFERT)
Andriy Honcharuk, Minister
8, Lvivska Ploshcha, Kyiv 254655, Ukraine
Tel: (380-44) 226-2733
Fax: (380-44) 212-5238

Ministry of Health
Raisa Bohatyrova, Minister
7, Hrushevsky Vul., Kyiv 252021
Tel: (380-44) 293-2472, 226-2205, 253-2472
Fax: (380-44) 253-8162

Ministry of Industrial Policy
Vasyl Hureev, Minister
3, Surykova Vul., Kyiv 252035, Ukraine
Tel: (380-44) 246-3220, 245-4778
Fax: (380-44) 246-3214

Ministry of Internal Affairs
Yuriy Kravchenko, Minister
10, Academica Bohomoltsa Vul., Kyiv 252024, Ukraine
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Fax: (380-44) 291-1733

Ministry of Justice
Susanna Stanik, Minister
13, Horodetskoho Vul., Kyiv 252001, Ukraine
Tel: (380-44) 229-6664
Fax: (380-44) 229-6664

Ministry of Labor and Social Policy
Ivan Sakhan, Minister
8/10, Esplanadna Vul., Kyiv 252023, Ukraine
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Fax: (380-44) 220-0098

Ministry of Transportation
Ivan Dankevych, Minister
7/9 Shchorsa Vul., Kyiv 252006, Ukraine
Tel: (380-44) 226-2204, 269-1031
Fax: (380-44) 268-1041, 268-2202

c. State Committees

State Committee of Statistics
Oleksandr Osaulenko, Chairman
3, Shota Rustaveli Vul., Kyiv 252023, Ukraine
Tel: (380-44) 227-2433, 226-2021
Fax: (380-44) 227-4266

State Committee for Development of Entrepreneurship
Oleksandra Kuzhel, Chairman
27, Kominternu Vul., Kyiv 252032, Ukraine

Tel: (380-44) 220-7679
Fax: (380-44) 220-9634

State Committee on Urban Construction and Architecture
Volodymyr Husakov, Chairman
24, Dmytrova Vul., Kyiv 252150, Ukraine
Tel: (380-44) 226-2208, 244-3982
Fax: (380-44) 227-2335

d. Other Agencies

National Bank of Ukraine (NBU)
Victor Yushchenko, Chairman
9, Instytutaska Vul., Kyiv 252007, Ukraine
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Fax: (380-44) 293-1698

State Tax Administration of Ukraine
Mykola Azarov, Head
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Tel: (380-44) 226-2061, 212-5159
Fax: (380-44) 212-0841, 212-4597

Security Service of Ukraine
Leonid Dekach, Head
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National Agency of Ukraine for Development and European Integration
(NAUDEI)

Roman Shpek, Chairman
19a, Bohdana Khmelystkoho Vul., Kyiv 01030, Ukraine
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Fax: (380-44) 224-2567, 246-3714

National Agency on Quality Control and Safety of Food,
Medicinal and Medical Use Products
Andriy Serdiuk, Head
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Fax: (380-44) 559-5711

State Property Fund of Ukraine
Oleksandr Bondar, Chairman
18/9 Kutuzova Vul., Kyiv 252133, Ukraine
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Fax: (380-44) 295-1274

National Agency for Management of State Corporate Rights
Oleh Taranov, Head
73 Sichovykh Striltsiv Vul.,
Kyiv 04053, Ukraine
Tel: (380-44) 246-8648, 246-8644

Fax: (380-44) 246-8646

Naftogas of Ukraine National Joint-Stock Company
Ihor Bakay, Chairman
6 B. Khmelnytskoho Vul., Kyiv 252001, Ukraine
Tel/Fax: (380-44) 229-4579

III. Ukraine's Verkhovna Rada (Parliament)

Verkhovna Rada
5, Hrushevskoho Vul., Kyiv 252019, Ukraine
Tel: (380-44) 226-2292, 254-0890
<http://www.rada.kiev.ua>

Oleksandr Tkachenko, Speaker of the Parliament
Tel: (380-44) 293-4992, 253-7060
Fax: (380-44) 293-0653

G. KEY MARKET RESEARCH FIRMS

Arthur Anderson & Co., SC
William Senkiw, Managing Partner
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Kyiv 252601, Ukraine
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Fax: (380-44) 228-6388

Deloitte & Touche
Alec McLaren, National Managing Partner
5 Prytysko-Mykilska Vul., Kyiv 254070, Ukraine
Tel: (380-44) 247-6666; Fax: (380-44) 247-6667
E-mail: amclaren@dtus.com

Derzh Zovnish Inform
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Tel: (380-44) 216-1636, 216-2937
Fax: (380-44) 216-2368
E-mail: main@dzi.kiev.ua
<http://www.ukrdzi.com.ua>

Ernst & Young
Rod Grant, Managing Partner
3/7 Kiyaniivsky Prov., Kyiv 254053, Ukraine
Tel: (380-44) 212-3564; Fax: (380-44) 212-5225
E-mail: grant@eycis.com

Harvard Institute for International Development
10b, Khreshchatyk Vul., Kyiv 252001, Ukraine
Tel: (380-44) 228-8660, 228-1349
Fax: (380-44) 228-1349
E-mail: hiid@hiid.kiev.ua
<http://www.harvard.kiev.ua>

International Centre for Policy Studies

Vira Nanivska, Director
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Tel: (380-44) 463-6337, Fax: (380-44) 463-5970
<http://www.icps.kiev.ua>

Institute of Reforms
Ivan Vasyunyk, Director
Tel: (380-44) 293-1452
Fax: (380-44) 246-6525

KPMG
Brian Lait, Managing Director
8b Velyka Zhytomyrska Vul., Kyiv 252025, Ukraine
Tel: (380-44) 490-5507; Fax: (380-44) 490-5508
E-mail: ardo@kpmg.kiev.ua

PricewaterhouseCoopers
Gerry Parfitt, Partner-in-Charge
38, Turgenivska Vul., Kyiv 252054, Ukraine
Tel: (380-44) 247-6777; Fax: (380-44) 216-4558
E-mail: gerry_parfitt@ua.coopers.com

(A more comprehensive list may be obtained from the American Business Center, located at the Commercial Service in Kyiv, Ukraine.)

H. MULTILATERAL DEVELOPMENT BANK OFFICES IN UKRAINE

World Bank Field Office (IBRD)
Gregory Jedrzejczak, Chief of Mission
38/44, Pochaininska Vul., 2nd & 3rd Floors
Kyiv 252070, Ukraine
Tel: (380-44) 247-6671/2/3
Fax: (380-44) 247-6670
<http://www.worldbank.org>

European Bank for Reconstruction and Development (EBRD)
Jaroslav Kinach, Resident Representative
Marykay Fuller, Deputy Resident Representative
27/23 Sofiivska Vul., Kyiv 252001, Ukraine
Tel: (380-44) 464-0132; Fax: (380-44) 464-0813
E-mail: Kiev@kev.ebrd.com
<http://www.ebrd.com>

International Finance Corporation (IFC)
Olena Voloshyna, Head of Operations
Dmytro Kryshchenko, Resident Representative, Corporate Finance Services
Amanda Leness, Project Manager, Post-Privatization Project
4, Bohomoltsa Vul., 5th Floor, Kyiv 252024, Ukraine
Tel: (380-44) 293-4355, 293-0662, 293-0657
Fax: (380-44) 247-5630
<http://www.ifc.org>

International Monetary Fund (IMF)

Patrick Lenain, Senior Resident Representative
Goohoon Kwon, Resident Representative
24/7 Institutska Vul., Suites 6 and 8, Kyiv 252008, Ukraine
Tel: (380-44) 247-7007
Fax: (380-44) 247-7005
<http://www.imf.org>

Chapter XII: Market Research and Trade Events

F. Market Research

Listed below are market research and "market insight" reports completed or planned by CS Kyiv. Contact our office for details. A complete selection of reports for Ukraine is also available on the National Trade Data Bank (NTDB). The NTDB is the U.S. Government's most comprehensive source of world trade data and offers one-stop shopping for trade information from more than 20 federal sources.

Completed Industrial Sector Analysis (ISAs):

- Internet in Ukraine (April 1999)
- Food Processing & Packaging Equipment (March 1999)
- TV Broadcasting in Ukraine (January 1999)

1999/2000 Planned ISAs:

- Dental Equipment Market in Ukraine (August 1999)
- Oil and Gas Services (October 1999)
- Energy Efficiency (March 2000)

International Market Insights (IMIs):

- Odesa Oil Refinery Controlled by Russian Lukoil (July 1999)
- Chornobyl Shelter Implementation Project,
Procurement Opportunities Follow-up (June 1999)
- Establishment of Ukrtarapererobka State Corporation (May 1999)
- Distribution of Furniture in Ukraine (April 1999)
- Chornobyl Shelter Implementation Project -
Procurement Opportunities (March 1999)
- Ukraine: Registration and Tax Difficulties for Importers
Of Medical Equipment (March 1999)
- National Joint-Stock Company "Naftogas of Ukraine"
(Oil & Gas of Ukraine) (March 1999)
- Ukrainian ceramic brick industry needs investment (March 1999)
- Licensing and Certifications Requirements for
Cosmetics - Ukraine (March 1999)
- Juice Market in Ukraine: An Attractive Sector for U.S.
Investors and Exporters (March 1999)
- Regulations on the Import of Remanufactured, Rebuilt,
and/or used Automobile Parts (February 1999)
- "Embassies Present" International Exhibition to be held
in Kyiv, Ukraine (June 22-25, 1999) (February 1999)
- "Reconstruction of Residential Buildings" International
Exhibition to be held in Kyiv, Ukraine (May 25-27, 1999) (February 1999)
- "Cottage '99" and "Modern Kitchen '99" International
Exhibitions held in Kyiv, Ukraine (April 23-27, 1999) (February 1999)
- "MEDLIFE-99, New in Dentistry" Conference to be held

- in Kyiv, Ukraine (October 7-10, 1999) (February 1999)
- Waste Recycling Equipment Needed in Ukraine (February 1999)
- Alert Report: "Aqua-Term Kiev '99"
- Upcoming International Exhibition (June 2-5, 1999) (January 1999)

G. Trade Event Schedule

The **International Buyer Program (IBP)** is a joint government-industry effort designed to increase U.S. export sales by promoting major U.S. industry exhibitions to overseas markets. The U.S. Department of Commerce recognizes leading U.S. trade shows in industries with high export potential. Practice, hands-on assistance is provided to U.S. exhibitors interested in exporting and making contacts with prospective qualified overseas trade partners. For addition information, please contact the U.S. Department of Commerce, Tel: (202) 482-0115, Fax: (202) 482-0872.

1999 International Buyer Program

Theme:	Dates:	Location
International Marine Trades Industry: Pleasure Boats/Accessories	September 9-12, 1999	Chicago, Illinois
Personal Communications Industry: Telecommunications Equipment	September 22-24, 1999	New Orleans, Louisiana
NAFEM Industry: Food Processing/Packaging Equipment	September 30 - October 2, 1999	Dallas, Texas
WEFTEC Industry: Water Resources Equipment/Services	October 9-13, 1999	New Orleans, Louisiana
Pack Expo Las Vegas Industry: Packaging Equipment	October 18-20, 1999	Las Vegas, Nevada
Sunbelt Agricultural Expo Industry: Agricultural Machinery & Equipment	October 19-21, 1999	Moultrie, Georgia
Worldwide Food Expo Industry: Foods - Processed	October 28-31, 1999	Chicago, Illinois
Automotive Aftermarket Industry Week Industry: Automotive Parts/Services/Equipment	November 2-5, 1999	Las Vegas, Nevada
Medtrade Industry: Medical Equipment	November 3-6, 1999	New Orleans, Louisiana
Comdex Fall Industry: Computers/Peripherals, Computer Services	November 15-19, 1999	Las Vegas, Nevada
Greater New York Dental Meeting	November 25 - December 1, 1999	New York, New York

Industry: Dental Equipment

International Autobody Congress December 2-5, 1999 Atlanta, Georgia
Industry: Automotive Parts/Services/Equipment

2000 International Buyer Program

Theme:	Dates:	Location:
The International Builders' Show Industry: Building Products	January 14-17, 2000	Dallas, Texas
International Consumer Electronics Show Industry: Consumer Electronics	January 17-21, 2000	Las Vegas, Nevada
ComNet/DC 2000 Industry: Telecommunications Equipment	January 24-27, 2000	Washington, D.C.
The Super Show/2000 Industry: Sporting Goods/Recreational Equipment	February 10-13, 2000	Atlanta, Georgia
Magic International Industry: Winter Apparel	February 14-17, 2000	Las Vegas, Nevada
Wireless 2000 Industry: Telecommunications Equipment	February 28-March 1, 2000	New Orleans, Louisiana
National Manufacturing Week Industry: General Industry Equipment/Supplies	March 13-16, 2000	Chicago, Illinois
International Franchise Expo Industry: Franchising	April 9-13, 2000	Washington, D.C.
NAB 2000 Industry: Telecommunications	April 10-13	Las Vegas, Nevada
National Restaurant Association Industry: Hotel/Restaurant Equipment	May 20-23	Chicago, Illinois
Supercomm 2000 Industry: Telecommunications	June 4-8, 2000	Atlanta, Georgia
National Plastics Expo 2000 Industry: Plastics Production Machinery	June 19-23	Chicago, Illinois

LOCAL EXHIBITIONS

Exhibitions are becoming more and more popular in Ukraine. This is evidenced not only by the increase in the number of exhibitions, but also by the number of companies participating at these exhibitions. The most popular subjects for exhibitions are: building materials, consumer goods, foodstuff, furniture, packaging and pharmaceuticals.

1999/2000 Exhibitions to be held in Kyiv, Ukraine

Note: For contact and location information, please refer to the contact listing immediately following the exhibition schedule.

1999:

September 1999

September 8-10	ENTERTAINMENT-XXI	(5,9)
September 21-24	SHOES EXPO-99	(5,9)
September 22-26	CONSTRUCTION AND ARCHITECTURE, INVESTMENT INTO REAL ESTATE MARKET	(5,9)
TBD	ADVERTISING - 99	(1)
-	advertising, equipment, services	
TBD	REX99/ADVERTISING/MARKETING	(2)
-	advertising and marketing technologies	
TBD	WARM HOUSE -99	(3)
-	energy conservation technologies for municipal services; heating systems and equipment; conditioners and refrigerators; renewable energy sources; control and metering devices, etc.	

October 1999

October 5-8	BUDEXPO-UKRAINA	(5,9)
-	construction technologies, building materials)	
October 5-8	ARCHITECTURE OF GLASS-99	(5,9)
-	glass design and new construction technologies)	
October 5-8	CLIMATE EQUIPMENT-99	(5,9)
-	air-conditioning technologies	
October 9-13	PRIMUS: MODERN HOUSE, CONSTRUCTION	(5,9)
-	building materials, construction technologies, furniture	
October 19-24	DREAM HOUSE-99	(5,9)
-	building materials, furniture, home appliances	
October 31- November 4	PRIMUS: MODERN HOUSE. INTERIOR DESIIGN	(5,9)
-	building materials, construction technologies, design, furniture, home appliances	
October TBD	CHILDREN CONTINENT-99	(5,9)
-	goods and toys for children	
October TBD	LADY'S BASKET	(5,9)

- cosmetic products, apparel, footwear

October TBD GLASS AND PORCELAIN (5,9)

November 1999

November TBD ELITE SPORT-99 (5,9)

- sporting goods

November TBD INFORMATION & COMMUNICATION '1999 (9)

November 9-12 ENERGY & ENERGY SAVING - 99 (4, 5)

- technologies and equipment in energy sector and electronic appliances industry

November 9-12 OIL/GAS-99 (4, 5)

- technologies and equipment for oil, gas and oil refining industries

November 16-19 BABY EXPO-99 (5,9)

- food products, clothing, footwear, toys for children

November 18-20 ECOLOGY and POWER INDUSTRY-99 (5,9)

- Environmental and energy saving technologies

November 24-27 TEXTILE-99 (5,9)

November 25-28 TECHNICAL GLASS & CERAMICS (8)

- inorganic and organic glass, glass fiber, fiber optics, materials equipment and technologies for their manufacture

November 25-28 EURORENOVATION'99 (8)

- materials, equipment and technologies for construction and repair of buildings and apartments

November 25-28 HEALTHY NUTRITION'99 (8)

- high-quality, ecologically clean natural foodstuffs, alcoholic and soft drinks; raw materials, technologies, and equipment for foodstuffs production

November 25-28 ALKOPRODUCT'99 (8)

- alcoholic, little-alcoholic, and soft drinks; raw materials, technologies, and equipment for production, storage and bottling of drinks

November TBD FURNITURE FASHION-99 (5,9)

November TBD LIGHTING EQUIPMENT (5,9)

December 1999

December TBD CHRISTMAS FAIR (5,9)

December TBD NEW YEAR SALE (5,9)

2000:

- March TBD ENTEREX '2000 (2)
- April TBD ENERGY SAVING EQUIPMENT & TECHNOLOGIES (3)
- energy conservation engineering, equipment and software; building materials and construction; alternative sources of energy, registration and control devices; household energy efficiency appliances.
- April TBD OIL, GAS, & OIL REFINING EQUIPMENT (3)
- exploration and drilling equipment; technologies and equipment for storage, transportation, refining and distribution; petrochemical industry equipment; corrosion protection; chemicals; diagnostic systems.
- April TBD FUEL & POWER COMPLEX OF UKRAINE (3)
- April TBD ELCOM-UKRAINE'2000 (6, 7)
- power generation; power transmission; power distribution; industrial and building systems; drives and standard products; automation; lighting.
- May TBD ADVERTISING INDUSTRY'2000 (8)
- equipment, technologies and materials for printing processes; equipment for outdoor advertising; materials for advertising and art works; computers and software for advertising production.

Contacts:

- (1)Ukrreklama
2, Verkhniy Val Vul., 5th Floor, Room 505
Kyiv, Ukraine 252070
Tel: (380-44) 417-3385; Tel/Fax: (380-44) 417-3071
- (2)Euroindex
P.O. Box 726, Kyiv 252032, Ukraine
56, Peremohy Prospect, Kyiv 252058, Ukraine
Tel: (380-44) 441-2573, 441-2774
Fax: (380-44) 441-2413, 441-2470
E-mail: enterex@eindex.kiev.ua
<http://www.euroindex.com.ua>
- (3)Ukrenergozberezhennia JSC
Maryna Tymoschenko, Manager
Tel: (380-44) 458-0418; Fax: (380-44) 446-8023
- (4)Novea International
55, Bohdana Khmelnytskoho Vul., Kyiv 252054, Ukraine
Tel: (380-44) 246-8313; Fax: (380-44) 246-8314
- (5)National Exhibition Center
Ukrainian State Center for Exhibitions & Trade Fairs
1, Hlushkova Prospect, Kyiv 252022, Ukraine
Tel: (380-44) 251-9113/14/54/9280
Fax: (380-44) 251-9112, 251-9126
- (6)Fairtrade (Germany)

Tel: (49-62) 21-45-650; Fax: (49-62) 21-45-6525

(7)Euroindex (Kyiv)

Tel: (380-44) 441-2512, 441-2517; Fax: (380-44) 446-1421

(8)International Fairs in Ukraine JSC

P.O. Box 31, Kyiv-22, 252022, Ukraine

Tel/Fax: (380-44) 251-9269/9347/9348/9147

(9)Sport Palace

Kyiv, Ukraine

Tel: (380-44) 212-5973; Fax: (380-44) 212-2982

Note: Exhibitions provide a good opportunity to obtain first hand knowledge of the market and prospective competitors and also for testing Ukraine's receptivity towards U.S. products. The Commercial Service, Kyiv urges those interested in participating or attending any of the above exhibitions to contact the exhibition organizer directly.

For more detailed up-to-date information on upcoming exhibitions in Ukraine, please contact:

U.S. Commercial Service

7, Kudriavsky Uzviz, Kyiv 254053, Ukraine

Tel: (380-44) 417-2669, 417-1413; Fax: (380-44) 417-1419

E-mail: kiev.office.box@mail.doc.gov

SHOWCASE EUROPE / OTHER TRADE EVENTS:

Showcase Europe offers a new way of doing business by highlighting Europe as a single market, the largest export market for U.S. companies. Below are listed trade promotion events which are part of the Showcase Europe program.

June 20-22, 2000: Power-Gen Europe 2000 Helsinki, Finland
-Europe's largest power generation conference and exhibition

If interested in receiving information regarding participation in the U.S. pavilion at one of these trade events, please contact your local Commercial Service office or the U.S. Commercial Service in Lisbon.

Showcase Europe key sectors include: Aerospace, Auto Parts, Energy, Environment, Franchising, Information Technologies, Medical & Pharmaceutical, and Travel & Tourism.

For more information, please contact:

U.S. Commercial Service

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